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COMPREHENSIVE

Annual Financial Report

Anthony A. Williams MAYOR
Natwar M. Gandhi CHIEF FINANCIAL OFFICER



**GOVERNMENT OF THE
DISTRICT OF COLUMBIA**
Office of the Chief Financial Officer

Year Ended September 30, 2004



ANTHONY A. WILLIAMS
MAYOR

January 24, 2005

Dear Citizens of the District of Columbia:

I am pleased to present the District of Columbia's Fiscal Year 2004 Comprehensive Annual Financial Report (CAFR). Once again the audit opinion is unqualified. We completed Fiscal Year 2004 with a surplus of \$317.7 million, resulting in a fund balance of \$1.2 billion in the General Fund.

These outcomes mark the eighth consecutive year that the District realized surpluses and earned an unqualified opinion on its financial statements. These accomplishments have significantly improved the District's access to more favorable financing rates in the credit markets, and have also created increased interest in investing in residential, retail and commercial projects throughout the District.

The District's successes have occurred in three major areas: (1) substantially improving the District's fiscal condition; (2) getting basic services functioning again, and; (3) stimulating sustained economic investment in the District. The District's general obligation bond rating was recently upgraded to "A" from "A-," by Standard & Poor's, while Fitch Ratings raised its rating outlook for the District to positive from stable. Services continue to improve, with increased immunizations for children, new units of affordable housing, more substance abusers treated, and more jobs for Washington, D.C., residents.

The new Gallery Place development is bringing more people to the neighborhood around Seventh and H Streets, N.W. – a neighborhood that had fallen on hard times, but is now well on the way to a full recovery. Many new residential units are being built nearby on Massachusetts Avenue, N.W. Not far away, on New York Avenue, N.E., the new headquarters for the federal Bureau of Alcohol, Tobacco and Firearms is on schedule for completion in 2006.

Thriving national businesses are also choosing the District's transit-friendly neighborhoods to open locations. These include Best Buy Co. Inc. and The Container Store in Ward 3, and a Target Store is on its way to Ward 1. Rhode Island Place in Ward 5, which includes a Home Depot and a Giant Food store, is an example of how we're bringing exciting new retail opportunities to residents in their neighborhoods. A similar effort is underway in Ward 8 with the redevelopment of the Skyland shopping center. And the redevelopment of the Tivoli Theatre in Columbia Heights is an example of how we can preserve our city's historic neighborhood developments while creating new shopping and entertainment options for our citizens. As these and many other projects succeed, it becomes easier to encourage further development, generate increased revenues and attract new residents to the District.

There are three major development projects that are priorities of my administration: (1) the development of the convention center hotel; (2) the redevelopment of the site of the old convention center, and; (3) the Anacostia Waterfront Initiative, which could result in \$7 billion worth of government and private sector investment in housing, retail, museums, and parks in sections of the city that currently are underdeveloped or blighted.

The announcement by Major League Baseball that the Montreal Expos baseball team will move to Washington, D.C., as the Washington Nationals, is a critical element in creating the same type of excitement and investment opportunity that the MCI Center created for the lower Seventh Street, N.W. neighborhood. This opportunity will cause some investments to occur along the Anacostia Waterfront, which is the location selected for the new baseball stadium, even sooner than expected. The Nationals will play at RFK Stadium beginning in April 2005, until the new stadium is completed in 2008.

The improved economic climate over the past few years has resulted in renewed challenges for the District to better manage its budget and operations, and also to improve service delivery. As impressive as our recent successes have been, we must continue to concentrate and to work even harder on the District's long-term viability. With your continued support, we hope to continue to spread the District's financial success to all of our neighborhoods and citizens and to the entire region.

Sincerely,

A handwritten signature in black ink that reads "Anthony A. Williams". The signature is written in a cursive, flowing style.

Anthony A. Williams
Mayor

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Natwar M. Gandhi
Chief Financial Officer

January 24, 2005

The Honorable Anthony A. Williams
Mayor of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Williams:

I am pleased to present the District of Columbia's Fiscal Year 2004 Comprehensive Annual Financial Report (CAFR). The year ended with General Fund revenues exceeding expenditures by \$317.7 million and a fund balance of \$1.2 billion. I can also report that the District's financial statements again earned an unqualified "clean" audit opinion from its independent auditors. The District has just completed the eighth consecutive year of financial recovery. Each year ended with both a budget surplus and an unqualified audit opinion.

During Fiscal Year 2004, tax collections were \$194.0 million higher than expected, and revenues from all other sources were \$73.1 million more than expected. In total, the District received \$267.1 million more from total revenues and other sources. Expenditures and other uses were lower in every category, resulting in \$111.0 million less being spent than was budgeted. Actual revenues exceeded actual expenditures and other sources by \$444.4 million on a budgetary basis, and by \$317.7 million on a basis consistent with generally accepted accounting principles.

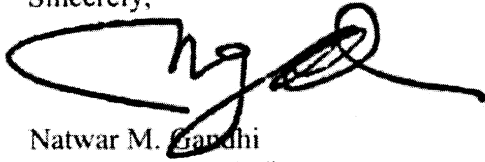
We have accumulated an emergency and contingency cash reserve of approximately \$285.4 million, and our financial condition has allowed the District to continue to improve its bond ratings. As a result, we enjoy lower borrowing costs on the District's outstanding debt.

On the other hand, the District remains vulnerable to unforeseen events that could place extreme stress on our resources. This condition exists because there is an imposed structural arrangement that unfairly limits the District's ability to generate revenue from its tax base. The federal government's restructuring in 1997 acknowledged the problem but failed to provide a long-term solution. The overall economic and structural position of the District remains a pressing issue that still needs to be addressed with the U.S. Congress and the President of the United States.

I would like to commend the many employees, both program and financial staff and especially the staff of the Office of Financial Operations and Systems, who have worked diligently to guarantee a successful closure of the District's books. They have again ensured that our records meet the highest standards required for an unqualified audit opinion. I am happy to report that the District has again been awarded the "*Certificate of Achievement for Excellence in Financial Reporting*" by the Government Finance Officers Association.

The many improvements that have been made in financial staffing, systems, and operations allow the program staff to more effectively manage government operations at all levels. The District is one of the few major city or state governments in the United States that prepares its own CAFR. As we have continued to refine and improve our financial systems and processes, it is now firmly established that the annual audit requirement has become a routine event in the District's overall financial management reporting.

Sincerely,

A handwritten signature in black ink, appearing to read 'Natwar M. Gandhi', with a large, stylized initial 'N' and a long, sweeping horizontal stroke extending to the right.

Natwar M. Gandhi
Chief Financial Officer

**Government of the District of Columbia
Comprehensive Annual Financial Report
Year Ended September 30, 2004**

Prepared by:

**Office of the Chief Financial Officer
Office of Financial Operations and Systems**

**Anthony F. Pompa
Deputy Chief Financial Officer
810 First Street, NE, Suite 200
Washington, D.C. 20002**

**DISTRICT OF COLUMBIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2004**

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January 24, 2005

Dr. Natwar M. Gandhi
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2004, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District. This report includes all disclosures necessary to enable the reader to gain a useful understanding of the District's financial activities.

Report Sections

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this letter of transmittal, the District's organizational chart, a list of principal officials and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the independent auditors' report, Management's Discussion & Analysis (MD&A), the basic financial statements, the notes to the basic financial statements, required supplementary information, and other supplementary information which includes combining and individual fund statements and schedules. The statistical section, which has been completely revised this year to conform to the recently issued Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: the Statistical Section*, presents detailed information that assists readers of the CAFR in assessing the overall economic condition of the District. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

Management's Discussion & Analysis

Beginning in fiscal year 2002, the District and many other state and local governments began presenting an MD&A section. The MD&A is an analysis of the financial condition and operating results of the District and is intended to introduce the basic financial statements and notes. The MD&A must be presented in every financial report that includes basic financial statements presented in accordance with Generally Accepted Accounting Principles in the United States (GAAP). The MD&A is presented before the basic financial statements. It is intended to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions.

Financial Reporting Entity

The financial reporting entity consists of the primary government and its component units. The primary government is the District, which consists of all the agencies that make up its legal entity.

The Water and Sewer Authority (WASA), the Washington Convention Center Authority, the Sports and Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia (UDC) are legally separate organizations for which the elected officials of the District are financially accountable. The financial data for these component units are presented separately from the financial data of the primary government. The Tobacco Settlement Financing Corporation (TSFC) is presented as a blended component unit, as required by GAAP applicable to governmental

entities. The District of Columbia Housing Authority, The National Capital Revitalization Corporation and the District of Columbia Courts are related organizations, since the District is not financially accountable for their operations.

Factors Affecting the District's Financial Condition

In May 2003, the United States Government Accountability Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*." Structural imbalance is defined as the fiscal and economic imbalance caused by being required to fund the services of both a state and city. The District also provides for the presence of the Federal government and other non-profit organizations. The inability to tax revenue earned by non-residents, and the inability to tax Federal properties, tax-exempt properties, and non-profit international entities puts a severe strain on the District's limited resources. The District is also faced with high concentrations of individuals who require substantial support for education, health care, job creation and training, and subsidized housing. Further, Washington, D.C.'s poverty, crime, and drug usage rates have been historically higher than many cities of comparable size. Although this report is now almost two-years old, the situation remains essentially the same, and the District's structural imbalance condition has not improved.

The GAO report is very detailed, and is recommended reading for all who wish to obtain a more complete understanding of this issue, which is extremely important to the long-term improvement of the District's governmental operations, delivery of services, and the economic well being of the District. Please contact the GAO to request a copy of GAO-03-666. The following section provides highlights from the report:

- The cost of delivering an average level of services per capita in Washington, D.C. far exceeds that of the average state fiscal system due to factors such as high poverty, crime, and a high cost of living.
- The District's per capita total revenue capacity is higher than all other state fiscal systems but not to the same extent that its costs are higher. In addition, its revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.
- The District faces a substantial structural deficit in that the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. Data limitations and uncertainties surrounding key assumptions in the GAO analysis make it difficult to determine the exact size of the District's structural deficit, though it likely ranges from \$470 million to \$1.143 billion annually.
- Even though the Washington, D.C.'s tax burden is among the highest in the nation, the resulting revenues plus federal grants are only sufficient to fund an average level of public services, if those services were delivered with average efficiency.
- The District's underlying structural imbalance is determined by factors beyond the District's direct control.
- The District continues to defer major infrastructure projects and capital investment because of its structural imbalance and its high debt level. These two factors make it difficult for the District to raise taxes, cut services, or assume additional debt.

Current Economic Condition and Outlook

As the nation's capital, Washington, D.C. is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. The federal work force in Washington, D.C. averaged approximately 192,400 employees in FY 2004 while approximately 152,000 additional federal employees worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer people than in the past, new business operations, especially in the service industry, continue to fill the void and are driving the strengthening local economy. The increased spending by the Department of Homeland Security is responsible for most of the recent increase in federal employment in the area.

Washington, D.C. hosts, on a permanent basis, more than 170 foreign embassies and recognized diplomatic missions. Also, a number of international organizations have their headquarters in Washington, D.C., including the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States. The United States' increasing involvement and leadership in international security, and economic, political and health affairs insure that even more international organizations will either establish offices within Washington, D.C. and the Washington metropolitan area.

More than 400 museums and historical landmarks are located in Washington, D.C. and attract millions of visitors each year. Citizens of all the states and international visitors enjoy the popular attractions along the National Mall as well as the monuments to presidents and the memorials to war. In 2004, two new major attractions were opened on the Mall, the National Museum of the American Indian, and the National World War II Memorial. Tourists also discover reminders of their American heritage at the National Arboretum and the Kenilworth Aquatic Gardens in Northeast Washington, at Fort Stevens and at the National Museum of Health and Medicine at the Walter Reed Army Medical Center located in the Georgia Avenue Corridor in Northwest, at the Congressional Cemetery and at Fort Dupont Park in Southeast, and at Fort McNair in Southwest. With its variety of activities and rich history, Washington, D. C. is consistently voted a top destination for family travelers.

In calendar year 2003, approximately 16.4 million U.S. citizens visited Washington D.C., an increase of about 3.2% from the 2002 figure of 15.9 million for U.S. citizens. An estimated 845,000 international visitors traveled to Washington, D.C. in 2003, a decrease of about 18% from the 2002 figure of 1.03 million for international visitors. Overall, visitors to Washington, D.C., both foreign and domestic, increased from 16.9 million in 2002 to 17.2 million in 2003, or about 2%. These visitors are very important to Washington, D.C.'s economy because of the large sums of money spent on lodging, meals, retail purchases and other services. The total amount spent by visitors to Washington, D.C. in 2003 is not yet available but is expected to be in excess of \$7 billion. This direct visitor spending generated additional business activity in related industries and boosted local as well as regional economic growth. Information on the number of visitors to Washington, D.C. is only available during the subsequent calendar year, and spending information is available sometime after that. Prior year statistics have been revised.

Washington, D.C. has evolved into a diverse economic community. The service industries now surpass the federal government as the largest employer. Expansion in legal services, high-speed Internet technology and communications provide new employment opportunities. Washington, D.C. is home to several prominent universities and major institutions of higher learning. Other universities from across the nation have established programs or campuses in and around Washington, D.C.. Washington, D.C. has 15 acute and long-term care facilities, including medical centers, hospitals for children and members of the military, and a regional shock and trauma center. More than 2,500 national trade associations, voluntary health and welfare and other not-for-profit organizations, and labor organizations are also headquartered in Washington, D.C..

Total employment in the Washington metropolitan area was approximately 2,900,000 in FY 2004 compared to 2,833,300 in FY 2003, representing a slight increase. However, these numbers exclude the self-employed, domestic workers, military and foreign government personnel, which represent a significant portion of the actual work force of the region. Washington, D.C. resident employment stayed at approximately 23% of the area total during the past three years. The September 2004, seasonally adjusted, unemployment rate in Washington, D.C. was 7.2%, compared to the September 2003 rate of 6.8%. Total employment within Washington, D.C. increased to 669,200 in September 2004 from 665,000 in September 2003 (Exhibit S-4A). Effective January 1, 2005, the standard minimum wage for employees in Washington, D.C. will increase from \$6.15 per hour to \$6.60 per hour, the first minimum wage increase since 1997.

Current development projects in retail, entertainment, tourism, and housing support the expectation of additional growth in private sector employment over the next several years. A number of national retail and food service chains have already moved into renovated commercial spaces across the central business district, and similar projects are appearing in surrounding areas. The long anticipated Pavilion at the Gallery Place Development opened in 2004. This development includes street-level retail, restaurants, movie theaters and commercial office space. Gallery place is located adjacent to the MCI Center, and will build upon the enthusiasm and excitement that was generated with the opening of the MCI Center in 1997. It is hoped that this is a sign of the renewed interest of retailers to locate or expand their operations in Washington, D.C.'s historic retail-oriented downtown.

Within the past year, both a Best Buy and Container Store opened in Tenleytown, N.W. Negotiations are underway to develop a high-quality shopping center at Skyland in S.E. in Ward 7, and to develop a Costco store at Fort Lincoln, within a shopping center to be located in the Fort Lincoln neighborhood in Ward 5. A parking garage at Rhode Island Place is also being planned to support mixed-use retail and residential development in Ward 5. The Fort Lincoln Shopping Center, the Skyland Shopping Center and the Ward 5 parking garage are all to be supported with Tax Increment Financing arrangements.

Federal Express opened its Washington, D.C. operations facility well before the current increase in commercial and office space, which eventually led to XM Satellite Radio occupying its new headquarters in the New York Avenue Technology Corridor. Other telecommunications companies are being encouraged to consider establishing business operations, such as data warehouses, nearby. The District, in partnership with the federal government and businesses in the New York Avenue Technology Corridor, agreed to fund the construction of a new inline Metrorail station on the Red Line, which is the busiest line on the existing 103-mile system. This is the first in-fill subway station to be added to the existing 103-mile Metrorail system. This station was completed and opened for operation on November 20, 2004, and the Washington Metropolitan Area Transit Authority (WMATA) is in the process of acquiring new railcars and modernizing many of its current railcars to

accommodate this new station and increased traffic throughout the system. WMATA also opened two new subway stations in December 2004 on the Blue Line in Prince George's County, terminating in Largo, near the Redskins FedEx Field Stadium.

A developer was selected for the renovation of the Tivoli Theater Complex in the Columbia Heights section of 14th Street, N.W. This development is near a recently opened Metrorail station and will include a Giant Food Supermarket and town houses. New residential construction is occurring in all sections of Washington, D.C., and range from single-family dwellings, to town houses, to apartment buildings and condominiums. The District's Housing Finance Agency helped finance a total of 525 housing units in fiscal year 2004 (Exhibit S-5A, page 142). These various ongoing efforts are creating a vibrant downtown residential neighborhood, in addition to expanding residential development throughout Washington, D.C.. The rapid reconstruction and renovation of vacant warehouses, buildings and residential structures, in addition to entirely new construction in all areas of Washington, D.C., provides incentives and a very strong marketing tool for attracting new residents and workers to the nation's capital.

The District's Office of Planning is currently working on projects that impact just about every area and neighborhood of Washington, D.C.. Among these are the: (1) Anacostia Transit Strategic Investment Plan; (2) the Anacostia Waterfront Initiative; (3) the Convention Center Area Strategic Development Plan; (4) the Downtown Action Agenda Project; (5) the East of the River Project; (6) the Georgia Avenue Revitalization Project; (7) the H Street Corridor Revitalization; (8) the McMillan Reservoir Project; (9) North of Massachusetts Avenue (NoMA); (10) Reservation 13 (on the grounds of the old D.C. General Hospital) Draft Master Plan; (11) the Takoma Central District Plan Project; (12) the Uptown Destination District Strategic Development Plan, and; (13) the Upper Wisconsin Avenue Corridor Study Strategic Framework Plan. Additional projects are currently in earlier stages of internal development within the Office of Planning.

The anticipated increase in non-governmental and total employment will mark an important milestone. The shift to a diversified employment base will continue to strengthen the Washington, D.C. economy, and make it more stable and less dependent on the federal government. It appears that the trend for federal operations to move into suburban areas is slowing, while Washington, D.C.'s economic base is continuing its shift from government towards private sector services employment.

The Census Bureau annually updates all previous population estimates from the latest decennial census (2000) until the next complete census. The 2000 Census indicated that estimates of flight from Washington, D.C. had been overstated in Census estimates during the previous decade. The actual population loss was 5.7% from 1990 to 2000, which is almost 60% less than the estimated loss predicted by the previous 1990 Census results. Those same Census estimates predicted that Washington, D.C. population would not reach its current level for approximately five more years. In fact, Washington, D.C.'s population decreased 16% between 1970 and 1980, but only experienced an additional 5% loss between 1980 and 1990 and 5.7% from 1990 to 2000. The U.S. Census Bureau estimated that in July 2004 there were 553,523 permanent residents in Washington, D.C., a slight decrease from the revised July 2003 figure of 557,620.

The annual Census estimates are made from birth and death records, changes in tax return filings and estimates of the number of immigrants who moved into Washington, D.C. each year. District officials have disagreed with this estimate based upon increased residential construction and property transfers. There is evidence that the U.S. Census has been historically low in its estimates of Washington, D.C.'s population. These estimates can affect the amount of Federal dollars that the District receives, which are based upon the Census Bureau's total population reports. The Census Bureau has stated that they believe that although new residents are moving into Washington, D.C., that they are primarily small family units, or individuals, while the family units moving out of Washington, D.C. have more family members.

Major Initiatives

Washington Convention Center

The new Washington Convention Center opened in April 2003, providing the District with 825,000 square feet of additional meeting and exhibition space. In 1995, the District established the Washington Convention Center Authority (WCCA) and provided it with dedicated tax revenues to operate an existing convention center and to construct a new convention center. The new Convention Center has 700,000 square-feet of exhibit space, 125,000 square-feet of flexible meeting space, and a 52,000 square-foot ballroom. The new facility enables the District to maintain its position among major cities as a leader in conventions, conferences and the hospitality industry in general. In its first year of operation, the new Convention Center attracted nearly one million attendees and generated 438,000 hotel-room nights, netting approximately \$426.5 million in new spending in Washington, D.C.. Like the MCI Center, a privately financed sports arena that opened in 1997, the new Convention Center project generates many new jobs in the hospitality industry.

On December 20, 2004, the District's "old" convention center was imploded to make way for one of the largest downtown

sites left for development in Washington, D.C. Groundbreaking for the old Washington Convention Center took place in 1980. In 1983, the building opened its doors - making it the 4th largest convention facility in the United States with 800,000 gross square feet and 350,000 square feet of exhibit space. For over two decades the old Center served as a major economic catalyst to the City. It held over 1,500 major national and international conventions and it is estimated that the old Washington Convention Center has contributed more than \$5 billion in gross economic stimulus for Washington, D.C. The old Washington Convention Center is credited with the rapid expansion and revitalization of downtown Washington. The Grand Hyatt and Renaissance Hotels opened shortly after the old convention center opened for business. This led to development of several commercial buildings including the Tech World office towers.

The Board of Directors of the WCCA decided in early-December 2004 to expand the meeting and ballroom capacity of the new convention center by 75,000 square feet and to develop and own a 1,200-room headquarters hotel with 100,000 square feet of meeting and ballroom space. WCCA staff will immediately start six-months of intensive pre-development activities to determine definitively whether or not the hotel can indeed be built at a site next to the new convention center on 9th Street between Massachusetts Avenue and M Street, N.W. Several issues for the hotel at this site including land acquisition, design, historic preservation and financing, must be explored in depth and resolved.

In the event that development of the hotel at this site is unmanageable, the District has agreed to reserve adequate space at the old convention center site, just a block away, for the hotel project. That agreement now allows the District to move forward with plans for a mix of housing, office, retail and cultural uses on the site of the old convention center.

Department of Transportation

The District's Department of Transportation (DDOT) manages multiple active projects that maintain, upgrade or reconstruct many of the local sidewalks, streets and bridges. This comprehensive infrastructure revitalization effort enhances the general appearance of neighborhoods but also eases the access and quickens the flow of traffic through the business activity centers. The renewal projects add to the ability of the District to compete for new residents and businesses. Each success adds to the tax base and translates into improved services for all. One of DDOT's recently completed major construction projects is the upgrade of the New York Avenue Gateway to Washington, D.C.

DDOT continues working on the New York Avenue Corridor Study that is intended to resolve current and future transportation needs of the Corridor from the Gateway at the intersection of New York Avenue and the Baltimore-Washington Parkway to the new Convention Center. The objective is to attract technology and other businesses to the Corridor and to provide a magnificent entryway for all visitors to the nation's capital. DDOT has recently begun the planning and design process to upgrade the South Capitol Avenue Gateway to Washington, D.C., and to begin the process of revitalization in this area that has long been neglected. DDOT is still pursuing the "Anacostia Starter Line", one of the five new light-rail projects, which would begin in Washington, D.C.'s poorest neighborhoods in Southeast, cross the Anacostia River and connect those residents with jobs and activities along the Southwest waterfront. The District and WMATA broke ground on the Anacostia Light Rail Demonstration project, to serve the Anacostia area in Southeast, D.C. The project, 2.7 miles of new track and six new stations is scheduled to begin service in the fall of 2006.

Neighborhood Revitalization

Washington, D.C. continues to consolidate its position as the world's capital for finance, technology, government and history. The city has become a vibrant and living community that includes world class arts, sports, entertainment and dining facilities. It is not just another place to stop, but a place to stay awhile, to live in, to play and to create. The Mayor announced his goal last year to attract 100,000 new residents to Washington, D.C. within the next 10 years.

On March 22, 2000, the Mayor brought together the 20 federal and District agencies that own or control land along the Anacostia River to sign the Anacostia Waterfront Initiative (AWI) Memorandum of Understanding (MOU). The AWI MOU created an unprecedented partnership between the federal and District governments to transform the Anacostia River from the city's forgotten river to a gem that could rival any urban waterfront in the world. The District plans to transform the Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and fishing, and to create parks, neighborhoods and cultural venues. The plans, as outlined by District Officials, would cost approximately \$8 billion and take at least 25 years to complete. In August 2004, the District created the Anacostia Waterfront Corporation to design, plan and control all of the development in and around the Anacostia River. One of the Corporation's goals is to make the Anacostia safe for swimming by 2025.

With Washington, D.C.'s downtown nearly built out, the city's pattern of growth is moving eastward, toward and across the Anacostia River. The destiny of Washington, D.C. as the nation's capital, and a premier world city, is inextricably linked to re-centering its growth along the Anacostia River and making revitalization of the long-neglected parks, environment and

infrastructure along its banks a national priority. The recovery of the Anacostia Waterfront will help to reunite Washington, D.C. economically, physically and socially.

The vision of the AWI is that of a clean and vibrant waterfront with parks, recreation uses and urban waterfront settings – places for people to meet, relax, encounter nature and experience the heritage of the waterfront neighborhoods. The AWI also seeks to ensure that the social and economic benefits derived from a revitalized waterfront are shared by those neighborhoods and people living along the Anacostia River for whom the river has been distant and out of reach. The federal government has announced plans to increase its employment presence in the Southeast Federal Center, which already houses a number of U.S. agencies. Plans are under consideration for the long awaited development of federal lands near and adjacent to the U.S. Navy Yard. The U.S. Department of Transportation has already announced plans to develop a new headquarters' building near the Southeast Federal Center.

A milestone was reached in the continuing redevelopment of the Anacostia River waterfront on December 10, 2004 when the District announced the winning design for a new 1.8 acre park, Canal Park, on Second Street, between L and M Streets in Southeast. Through a grant from the National Endowment for the Arts, the non-profit Canal Park Development Association coordinated a competition on behalf of the District of Columbia to design a new park on a three-block site along the route of the historic Washington Canal. The canal once connected the Anacostia River to the U.S. Capitol and the Potomac River.

In April 2001, the operator of the luxury Mandarin Oriental hotel announced that it would build a 400-room property on a vacant site along the waterfront in Southwest Washington after securing a \$46 million tax-revenue bond from the District. Construction of the \$155 million hotel is "critical" to the District's plans to bring 800 housing units, restaurants, retail space and a waterfront park to Southwest. The tax-exempt financing for this project was made available in April 2003, and the hotel opened for guests in March 2004.

The Georgetown Project (Project) is a joint effort by Pepco, Verizon, Washington Gas, the Water and Sewer Authority and DDOT. It will provide a major upgrade of Georgetown's underground utility infrastructure and streetscape. The Project began in October 2001 and will modernize the utility system to meet present and future growth in demand. Georgetown has some of the oldest underground infrastructure in Washington, D.C., and various utility and service disruptions required this coordinated effort to improve the infrastructure and reduce disruptions. The Project will be completed during the Spring of 2005, with \$7 million in streetscape renovations, including the installation of street lights, benches and sidewalks.

In October 2004, the District announced that Target signed a purchase agreement to build its first store in the District in Columbia Heights at 14th Street and Park Road, N.W. It is expected that Target will bring 500 temporary construction jobs, 1,000 direct permanent jobs and \$240 million in net direct new taxes over the 20-years after development. In December 2004, the Tivoli Theatre re-opened in the same neighborhood. The Theater and Target are both expected to be catalysts for further development.

The Freedom Forum, currently based in Rosslyn, Virginia, has purchased the former site of the District's Department of Employment Services (DOES) located at 6th & Pennsylvania Avenue, N.W. In addition to its main offices, the Freedom Forum will relocate its Newseum, an interactive news museum, with approximately 215,000-square feet, and develop both an additional 30,000 square feet of retail space and approximately 100 condominium units. The approximately 531,000-square foot development is estimated to cost about \$400 million. In October 2002, the Freedom Foundation and the Newseum formally presented their design for the new building. Demolition of the old DOES building has occurred and it is expected that the new Newseum will be completed and opened to the public by late 2006.

DOES operations have been temporarily relocated to another area of the city that is targeted for development. While the new headquarters is being developed and constructed, DOES staff is housed in a newly renovated warehouse near the intersection of New York and Florida avenues. The District's Department of Motor Vehicles will also be relocated away from the downtown business district to make its primary services more accessible to citizens. These moves are expected to spur additional development at the new sites.

Between the District's developments and private projects, there are more than 37,000 units of housing either complete, in production, or in the citywide construction pipeline. In addition to new housing, the District of Columbia Housing Authority operates nearly 9,000 units of public housing, with a 99% Housing Choice Voucher Program utilization rate, and a 98% public housing occupancy rate.

The federal government has shown renewed interest in the District as the place for consolidating agencies, functions and staff. The General Services Administration broke ground for the construction of the U.S. Department of Justice's Bureau of

Alcohol, Tobacco, Firearms and Explosives' (ATF) new headquarters building in April 2002. The decision to locate the 422,000-square foot building at the intersection of First Street and New York Avenues, N.E. helped the District obtain matching Federal and private commitments of \$50 million to pay for the recently opened Metro rail station near that location. Construction of the ATF headquarters is projected to be completed by late-2006.

The District government has used a number of arrangements to fund other economic development ventures, including business improvement districts (BID). The BID legislation permits businesses to request and accept special assessments. In other words, businesses agree to tax themselves. The money collected is used exclusively to fund improvements in the designated area around the businesses. The funds are set aside specifically to enhance the environment occupied by privately owned companies and firms, making them more attractive for customers and clients. There are five major BIDs: (1) Downtown; (2) Golden Triangle; (3) Georgetown; (4) Capitol Hill, and; (5) Mount Vernon Triangle. According to the District's Office of Tax and Revenue, more than \$63 million has been collected from businesses in these areas between 1998 and November 2004.

Economic Tax Incentives

The already popular tourism industry and other projects such as those discussed above only partially address the District's need to build a broader economic base. Both the U.S. Congress and the D.C. Council have enacted legislation and are taking action that aims at expansion of the District's permanent tax base by making all areas of the District economically attractive to both prospective residents and new business interests.

The Taxpayer Relief Act of 1997 (PL 105-34) established the District of Columbia's Enterprise Zone. The zone consists of the previously existing enterprise zone communities plus all other census tracts for which the poverty rate is at least 20%. The law also increased the limitation on tax-exempt economic development bonds to \$15 million. It eliminated the federal capital gains tax through December 31, 2007 on business stock, partnership interest, and business property held for more than five years in all census tracts for which the poverty rate is at least 10%. The federal Homebuyer Tax Credit, which provides a maximum \$5,000 federal income tax credit for first-time buyers of principal residences, was also included in the original Taxpayer Relief Act of 1997 and was recently extended for purchases closed through December 31, 2005, as were the business tax benefits.

The Tax Parity Act of 1999 lowered taxes on both income and real property. The new tax rates are expected to make Washington, D.C. more competitive with the neighboring suburban jurisdictions. The Tax Clarity Act of 1999 streamlined the tax code, eliminating duplications and discrepancies. During the same period, real property tax assessments have continued to reverse their decline and collections of both current and delinquent taxes have increased.

Additional business incentive legislation is awaiting final approval by the District and the U.S. Congress. The E-Conomy Transformation Act of 2000 encourages new high technology firms to locate their operations in the District while encouraging the hiring of Washington, D.C. residents. Brownfields redevelopment program legislation, which has proven successful in other jurisdictions, limits liability for certain environmental contamination and establishes funding mechanisms for those willing to develop Brownfields sites. Brownfields sites are abandoned buildings and properties that are contaminated (or perceived to be contaminated), thus complicating their potential for reuse. The cleanup of such sites, and the removal of liabilities that could arise from their reuse, allows Brownfields sites to become productive again. These sites are to be used for economic development activities, the creation of new and affordable housing, or for urban gardens, parks and recreation areas.

The Office of the Chief Financial Officer uses the Tax Increment Financing (TIF) Program to encourage new economic development projects that may not occur otherwise. In FY 2004, two TIF supported projects, the Mandarin Hotel on the Southwest Waterfront and Gallery Place in Chinatown, adjacent to the MCI Center opened for business. TIF agreements enable the District to influence certain practices and conditions of each operation, including the percentage of Washington, D.C. residents to be employed both during and after construction. Buoyed by these successes and the New York Avenue technology corridor, the District is actively proceeding with plans to restructure the economic base of other underserved neighborhoods. Local redevelopment options for both residential and retail investments are under discussion for a variety of sites outside of the central business area.

Other Initiatives

On September 29, 2004, the District announced that an agreement had been reached with Major League Baseball that would allow the then-Montreal Expos to move to Washington, D.C. and to begin playing at Robert F. Kennedy Stadium in April 2005, until a new 41,000 seat stadium is constructed. The original agreement required that the District construct and totally finance a new baseball stadium by the 2008 baseball season. The new stadium was to be financed by a gross receipts tax, rent payments from the team, and a sales tax on baseball goods and merchandise sold either at the stadium, or within Washington, D.C. The team's name has been changed to the "Washington Nationals".

The Mayor originally estimated that the stadium, plus land acquisition and infrastructure would cost \$440 million. Subsequently, the District's CFO and D.C. Auditor estimated that the entire project would cost \$530 million and \$584 million, respectively. As a result of resistance to public financing of the stadium, members of the D.C. Council began to request that efforts be made to secure at least 50% private financing for the stadium portion of the project, with the District remaining responsible for land acquisition and infrastructure. The stadium portion is projected to cost \$289 million, and the District will attempt to secure private financing for at least \$145 million of that amount. Investors might be interested in potentially owning the stadium, if they could secure the right to depreciate the stadium, thereby making the investment tax advantaged. If that were to occur, the District would then lease the stadium from the stadium owners, and use some of the tax and ballpark related revenue streams to pay the District's lease cost for use of the stadium by the Washington Nationals.

Major League Baseball and the Mayor agreed that the District had to guarantee that legislation would pass by December 31, 2004 assuring that the stadium would be built, regardless of whether any private financing was secured. On December 21, 2004, the D.C. Council and the Mayor agreed to language that was acceptable to Major League Baseball, and the Mayor signed the financing package into law on December 29, 2004. According to District projections, ballpark construction would support 3,500 jobs and generate \$5 million in new tax revenues. Annual team and ballpark operations would create more than 350 jobs and nearly \$30 million in new tax revenues. The proposed site for the new ballpark on the Anacostia Waterfront has both Metro and highway accessibility. The new stadium is to be the centerpiece in the development of the Southeast D.C. waterfront, in addition to being the first major project to be undertaken by the newly created Anacostia Waterfront Corporation. The Mayor signed legislation creating the Corporation on August 5, 2004.

The District of Columbia College Access Act (PL 106-98), and its amendments, authorized the District to underwrite a portion of the difference between in-state and out-of-state tuition rates for eligible Washington, D.C. residents who attend certain institutions of higher education outside Washington, D.C.. Congress funded \$25.6 million for the Tuition Assistance Grant program for 2005 and reauthorized the program through 2007. Funds from this program are currently assisting more than 6,600 Washington, D.C. residents attending eligible colleges and universities throughout the United States. Additional federal incentives, under separate legislation, include tax credits and health care coverage, and provide a variety of support to those who adopt children from the District's foster care system.

The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code) The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to Washington, D.C. residents as well as non-residents nationwide. This plan is reported in the Private-purpose trust fund.

In April, 2004, Moody's Investors Service improved the District's bond rating from Baa1 to A2. This is the first time since at least 1990 that Moody's has given the District an A rating. The upgrade reflects the sustained improvement in the Washington, D.C. economy and property tax base as well as the District's multi-year record of improved financial management, controls and results. In November, Standard & Poor's upgraded the District's general obligation bonds to A from A-, based on its stable economic outlook. This shows that the District continues to receive the confidence of Wall Street analysts.

Accounting System

The District's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity, having its own assets, liabilities, equity, revenues, and expenditures/expenses. The types of funds used are determined by GAAP, and the number of funds established within each type is determined by principles of sound financial administration. Specialized accounting and reporting principles and practices apply to governmental funds. Proprietary, component units and pension trust funds are accounted for in the same manner as similar business enterprises or non-business organizations.

Internal Control

Management of the District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are processed and summarized to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the United States Congress. A project-length financial plan is adopted for the Capital Projects Funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by function within the General Fund. The District also maintains an encumbrance recording system as one technique of accomplishing budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Funds.

By law, the budgetary general fund includes both the general fund and the federal and private resources fund. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in differs from the GAAP – basis general fund and federal and private resources fund due to other basis and entity differences, as follows:

- *Basis Differences* - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis.
- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis. Such activities primarily include the following as detailed on Exhibit 2-d:
 - Fund balance released from restrictions
 - Proceeds from debt restructuring
 - Accounts receivable allowance
 - Operating cost from enterprise funds

The “*District Anti-Deficiency Act of 2002*” (the Act) became effective on April 4, 2003. The Act requires District managers to develop spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5%, and in the case of overspending, corrective action plans. Spending projections are required to be submitted to the agency head and the agency chief financial officer. Summarized spending projections must be submitted to the District’s Chief Financial Officer no more than 30-days after the end of the month.

The District’s Chief Financial Officer is required to submit reports to the D.C. Council and the Mayor on a quarterly basis indicating each agency’s actual expenditures, obligations, and commitments, each by source of funds, compared to their approved spending plan. This report is required to be accompanied by the CFO’s observations regarding spending patterns and steps being taken to assure that spending remains within the approved budget.

Congressional mandate required the District to build and maintain an emergency cash reserve equaling 4% of the total budget allocated for operating expenditures by the end of FY 2004. An additional contingency cash reserve must also be established, which must equal 3% of the total budget allocated for operating expenditures. The District has met both of these requirements. Beginning in FY 2005, the District will only be required to maintain a combined balance of 6% for both reserves.

Cash Management

Generally, cash from all funds of the primary government is combined unless prohibited by law. Any cash that is not needed for immediate disbursement is invested in securities which are generally fully guaranteed by the federal government, such as mutual funds of federal government obligations or repurchase agreements collateralized by federal agency obligations.

The Financial Institutions Deposit and Investment Amendment Act of 1997 (D.C. Code 47-351.3) authorized the District to invest in certain obligations that may not be guaranteed by the federal government. Deposits and investments are fully collateralized with approved securities that are held by the District or by its agent in the District’s name.

Risk Management

The District retains the risk of loss arising out of the ownership of property or from some other cause, except health care and life insurance benefits for employees. A liability is established in the government-wide statement of net assets to reflect certain contingencies; however, this balance is not intended to include all assets that may be required to finance losses. Rather, certain losses are recognized in the affected fund when they occur. The District is self-insured for unemployment and workers compensation, as well as for general liability.

Independent Audit

District law (D.C. Code 47-119) requires an annual financial audit of the District by independent certified public accountants. The audit must be conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* published by the U.S. Government Accountability Office. The financial statements must be prepared in conformity with GAAP. The District has complied with these requirements and the independent auditors' report is included in the financial section of this report.

U.S. Office of Management & Budget Single Audit

The District is required by the U.S. Office of Management & Budget (OMB) to conduct a financial and compliance audit of all federal awards. OMB Circular A-133 (Revised) spells out these requirements, and sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. This Circular is issued pursuant to the Single Audit Act Amendments of 1996, P.L. 104-156.

The Office of Internal Audit and Internal Security, Office of the Chief Financial Officer, has completed all required A-133 Single Audits through fiscal year 2003 and the District is in full compliance with the Single Audit Act. The results of the District-wide Single Audit are presented in a separate report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended September 30, 2003. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must also satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The District has received a Certificate of Achievement for twenty of the last twenty-two years. The District believes that the current comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements and it will be submitted to the GFOA for review.

The Government Finance Officers Association of the United States and Canada (GFOA) also awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Popular Annual Financial Report (PAFR) for the fiscal year ended September 30, 2003. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for the preparation of state and local government financial reports.

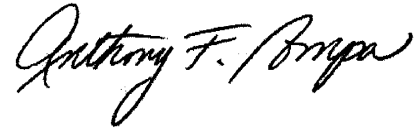
The PAFR, was prepared, and submitted, by the District for the first time for FY 2003. The PAFR presents the District's financial results in a format and language that is intended to be much more understandable by the general public. Because the PAFR is not required to present the same level of detail that is required in the CAFR, there are very few financial statements, and the use of graphics and photos is increased.

A Certificate of Achievement is valid for a period of one year. This is the first time that the District has received a Certificate of Achievement for the PAFR. The District believes that the current Popular Annual Financial Report, which will be prepared within the next month, will continue to conform to the Certificate of Achievement program requirements and it will be submitted to the GFOA for review.

Acknowledgments

I want to thank the hundreds of accounting and financial personnel throughout the District who have cooperated with the Office of Financial Operations and Systems all year, especially in the past four months. I appreciate their efforts, which have continued to be an important factor in our preparation of this CAFR publication. Most of all, I want to thank my staff, *Grace Crocker, Larry Daniels, Bill Slack, Leticia Stephenson*, and their respective team members. I am grateful for their dedicated efforts. I also thank the Office of the Inspector General and the District's independent auditors, *KPMG LLP* who were assisted by *Bert Smith and Company; Thompson, Cobb, Bazilio and Associates*; and *Gardiner, Kamy and Associates* for their efforts throughout the audit engagement.

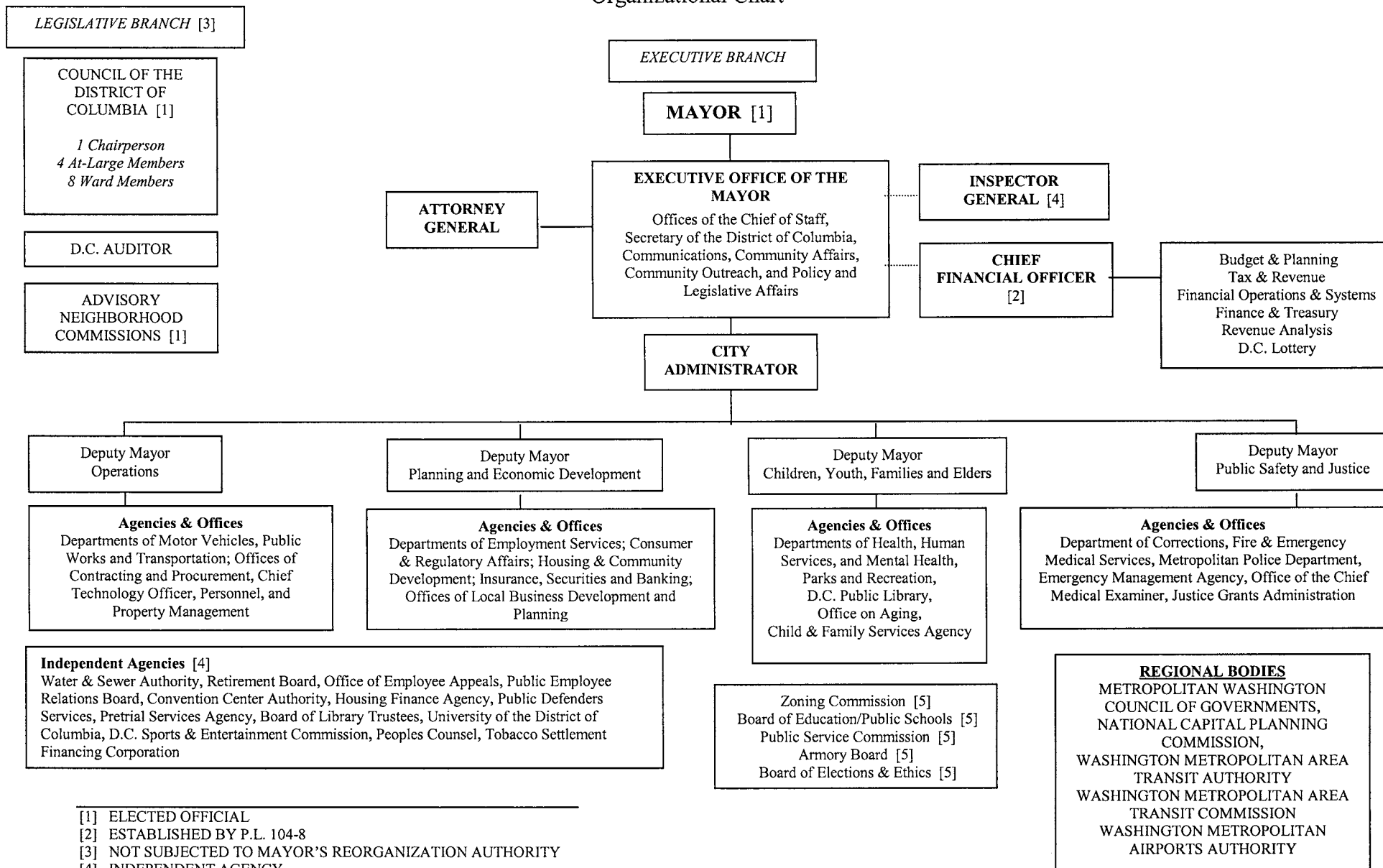
Respectfully submitted,



Anthony F. Pompa
Deputy Chief Financial Officer
Financial Operations and Systems

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Organizational Chart



[1] ELECTED OFFICIAL

[2] ESTABLISHED BY P.L. 104-8

[3] NOT SUBJECTED TO MAYOR'S REORGANIZATION AUTHORITY

[4] INDEPENDENT AGENCY

[5] CHARTER INDEPENDENT AGENCY

**DISTRICT OF COLUMBIA
PRINCIPAL OFFICIALS
September 30, 2004**

| Name | Position | First Elected or Appointed | Term Expires |
|---------------------------------|---|---------------------------------------|---------------------|
| Chief Executive Officer | | | |
| Anthony A. Williams | Mayor | 1999 | 2007 |
| Council | | | |
| Linda W. Cropp | Chairman | 1991 | 2007 |
| Harold Brazil | At Large | 1991 | 2005 |
| David A. Catania | At Large | 1997 | 2007 |
| Phil Mendelson | At Large | 1999 | 2007 |
| Carol Schwartz | At Large | 1997 | 2005 |
| Jim Graham | Ward 1 | 1999 | 2007 |
| Jack Evans | Ward 2 | 1991 | 2005 |
| Kathleen Patterson | Ward 3 | 1995 | 2007 |
| Adrian Fenty | Ward 4 | 2001 | 2005 |
| Vincent Orange | Ward 5 | 1999 | 2007 |
| Sharon Ambrose | Ward 6 | 1997 | 2007 |
| Kevin P. Chavous | Ward 7 | 1993 | 2005 |
| Sandy Allen | Ward 8 | 1997 | 2005 |
| House of Representatives | | | |
| Eleanor Holmes Norton | Delegate | 1991 | 2005 |
| Executive Officers | | | |
| Robert C. Bobb | City Administrator | | |
| Natwar M. Gandhi | Chief Financial Officer | | |
| Robert Spagnoletti | Attorney General | | |
| Alfreda Davis | Chief of Staff | | |
| Eric Price | Deputy Mayor for Planning and Economic Development | | |
| Neil O. Albert | Deputy Mayor for Children, Youth, Families and Elders | | |
| Robert C. Bobb | Interim Deputy Mayor for Public Safety and Justice | | |
| Herbert R. Tillery | Deputy Mayor for Operations | | |
| Sherryl Hobbs Newman | Secretary of the District of Columbia | | |
| Dr. Clifford B. Janey | Superintendent for DC Public Schools | | |
| Austin A. Andersen | Interim Inspector General | | |
| Anthony F. Pompa | Deputy CFO, Financial Operations and Systems | | |
| Bert Molina | Deputy CFO, Budget and Planning | | |
| N. Anthony Calhoun | Deputy CFO, Finance and Treasury | | |
| Dr. Julia Friedman | Deputy CFO, Research and Analysis | | |
| Daniel L. Black, Jr. | Deputy CFO, Tax and Revenue | | |
| Steward D. Beckham | Associate CFO, Public Safety and Justice | | |
| Pamela D. Graham | Associate CFO, Government Services | | |
| Barbara D. Jumper | Associate CFO, Governmental Operations | | |
| Henry W. Mosley | Associate CFO, Economic Development and Regulation | | |
| Deloras A. Shepherd | Associate CFO, Human Support Services | | |
| John D. Musso | Agency CFO, D.C. Public Schools | | |
| Jeanette A. Michael | Executive Director, D.C. Lottery | | |

Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Enen

Executive Director

INDEPENDENT AUDITORS' REPORT



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Mayor and Council of the Government of District of Columbia
Inspector General of the Government of the District of Columbia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia (District), as of and for the year ended September 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and federal and private resources funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, during 2004, the District has implemented Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, and Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis on pages 19 through 34 and the required supplementary information on page 92 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the other supplementary information presented in the financial section as listed in the table of contents, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statements and schedules described as other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 24, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2004

(Dollar amounts expressed in thousands)

This Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the District of Columbia (the District) for the fiscal year ended September 30, 2004. This discussion and analysis should be read in conjunction with the basic financial statements and the notes to the basic financial statements, which follow this discussion on pages 35 through 91.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components:

- (1) *Government-Wide Financial Statements* - Exhibit 1-a, *Statement of Net Assets*, and Exhibit 1-b, *Statement of Activities* on pages 36 and 37, present information about the financial activities of the District as a whole. These two statements provide an overall view of the District's finances.
- (2) *Governmental Fund Financial Statements* - Exhibit 2-a, *Balance Sheet – Governmental Funds*, Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, Exhibit 2-c, *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, and Exhibit 2-d, *Budgetary Comparison Statement* on pages 38, 39, 40, and 41, respectively, show how governmental activities were financed during the current year and the balances remaining for future spending. The fund financial statements focus on the most significant District funds and present operations in more detail. Other fund financial statements provide details for enterprise activities and fiduciary activities for which the District acts exclusively as a trustee or agent for the benefit of entities or individuals external to the government.
- (3) *Notes To The Basic Financial Statements* - Provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL HIGHLIGHTS

- In the government-wide presentation, assets exceeded liabilities for resulting net assets of \$1,558,767. The net assets consisted of *net assets invested in capital assets, net of related debt* of \$792,460; *restricted net assets* of \$1,102,315; and negative *unrestricted net assets* of \$336,008. Business-type activities contributed \$346,869 to the total government-wide net assets.
- Government-wide total net assets increased by \$463,102 over the previous year. About 70% of this increase is attributable to increases in income and franchise taxes and other taxes. Property taxes contributed 25% of this increase. (Table 1, *Net Assets as of September 30, 2004*, page 23)
- The District's governmental funds reported combined fund balances of \$1,224,788, an increase of \$194,677 over the previous year. The fund balance of the general fund is \$1,215,015 or 99.2% of the combined fund balances. This balance represents an increase of \$317,658 over last year. This increase was due mainly to increases in income, franchise, and property taxes, as well as increases in other taxes.
- From the general fund's fund balance, \$285,409 is legally set aside for emergencies and contingencies and \$53,754 is unreserved and uncommitted. In addition, management has designated \$227,336 for future funding of other postemployment benefits; \$40,000 to finance capital projects and \$91,330 for other purposes.
- Total long-term debt increased by \$162,234, or 4.2%, during the current fiscal year. The key factor for this was the increase of \$167,815 in general obligation debt, while other debt decreased by \$(5,581). (Table 3, *Outstanding Bonds and Notes at September 30, 2004*, page 30).

NEW GASB PRONOUNCEMENTS

GASB Statement No. 34

In June 1999, members of the Governmental Accounting Standards Board (GASB) unanimously approved issuance of the most comprehensive governmental reporting standard ever developed—GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB Statement No. 34 required that governments change the way that they report certain information by including the following new information: (1) management's discussion & analysis; (2) government-wide financial statements; (3) fund financial statements, and; (4) notes to the financial statements. These changes were designed to make the financial statements of governments more consistent in the treatment and application of transactions and balances. Subsequent amendments to GASB Statement No. 34 have already been implemented by the District.

GASB Statement No. 42

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly, permanently and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

This Statement improves financial reporting because it requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. Users of financial statements will better understand when impairments have occurred and recognize the financial impact on the government. This Statement also enhances comparability of financial statements between governments by requiring all governments to account for insurance recoveries in the same manner.

Although GASB Statement No. 42 does not become effective until the fiscal period that begins after December 15, 2004, the District's FY 2006, the District's adoption of this Statement did not identify any impaired capital assets. See Note 1. I., *New Accounting Standards Adopted*, on page 56, for additional details about GASB Statement No. 42 implementation and impact.

GASB Statement No. 44

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: the Statistical Section*. This Statement supersedes certain sections of GASB Statement No. 6 and amends certain sections of GASB Statement No. 30. This Statement also amends the portions of NCGA (National Council on Governmental Accounting) Statement 1, *Governmental Accounting and Financial Reporting Principles*, which guide the preparation of the statistical section of the CAFR.

The objectives of the statistical section are to provide the users of the financial statements with additional historical perspective, context, and detail. The information in the statistical section will support the basic financial statements, notes to basic financial statements, and the required supplementary information to allow users to better understand and assess a government's economic condition. Under GASB Statement No. 44, the statistical section information is presented in five categories, as discussed below:

- Financial trends information is intended to assist users in understanding and assessing how a government's financial position has changed over time.
- Revenue capacity information is intended to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues.
- Debt capacity information is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.

- Demographic and economic information is intended to: (1) assist users in understanding the socioeconomic environment within which a government operates, and: (2) provide information that facilitates comparisons of financial statement information over time and among governments.
- Operating information is intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

GASB Statement No. 44 is effective for the District the period that begins after June 15, 2005, the District's FY 2006. However, the District decided to implement GASB Statement No. 44 early; its implementation is complete with this report.

GASB Statements No. 43 and 45

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, an amendment to GASB Statement No. 34. In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related assets and liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 43 does not become effective for the District until the period that begins after December 15, 2005, the District's FY 2007. GASB Statement No. 45 does not become effective for the District until the period that begins after December 15, 2006, the District's FY 2008. The District has begun the analysis of these Statements, and plans to implement them on, or before, their respective effective dates.

THE DISTRICT'S FINANCIAL CONDITION

The MD&A guidelines require the District to provide its citizens with an assessment of its financial condition, including the year's operating results, to assist the citizenry in:

- Determining whether the District's overall financial position improved or deteriorated;
- Evaluating whether the District's current-year revenues were sufficient to pay for current-year services;
- Understanding the extent to which the District has invested in capital assets, including roads, bridges, and other infrastructure assets; and
- Making better comparisons between the District and other governmental jurisdictions or entities.

There are various ways to measure the District's financial responsibility and performance. Some of the indicators of the District's improved financial position are:

- The District finished the year with total expenditures within budget.
- The General Fund produced a budgetary surplus of \$444,379 , which, after adjustments, resulted in a General Fund surplus of \$317,658.
- The District's General Fund accumulated fund balance is \$1,215,015 , an increase of \$1,668,871 since FY 1996.
- The District's legal debt limitation allows the District to pay up to 17.0% of its total revenues for debt service payments this year, whereas the District's FY2004 debt service cost was only 7.8% of total revenues, or about 46.1% of the limit.

- The District is now beginning to invest larger amounts of funds in infrastructure assets.

This brief assessment is in no way meant to replace reading the entire CAFR, especially this MD&A, and the basic financial statements and related notes. In addition, please read the information on the District's structural imbalance on page 2 of the Transmittal Letter which summarizes the United States Government Accountability Office's report "*District of Columbia – Structural Imbalance and Management Issues*."

Reporting the District as a Whole (Government-Wide Financial Statements)

The District, as a whole, now reports all assets and liabilities using the *accrual basis of accounting*. This method is similar to the accounting method used by most private-sector companies. Under this basis of accounting, all of the current year's financial activities are taken into account regardless of when cash is received or paid. The governmental activities and business-type activities are presented in two separate columns and combined to show totals for the primary government. The *Statement of Net Assets* and the *Statement of Activities* are two statements that present information and activities that help the reader determine the overall financial condition of the District. Readers can decide for themselves if the District's financial position has improved or deteriorated as a result of the current year's activities.

The District's current financial resources (short-term disposable resources) are reported along with capital assets and long-term obligations in the *Statement of Net Assets*. The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. This statement distinguishes between governmental activities, business-type activities and component units' activities. The total net assets are the sum of these three components: 1) *invested in capital assets, net of related debt*, 2) *restricted net assets* and 3) *unrestricted net assets*. Over time and accounting periods, changes in the District's net assets are an indicator of its financial health. However, changes in population, property tax base, infrastructure condition and other non-financial factors must be considered in assessing the overall financial health of the District.

The *Statement of Activities* presents information showing how the government's net assets changed during the last fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement also include items that will only result in cash flows in future fiscal periods, (i.e., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities show the District's basic functional services while business-type activities reflect enterprise operations where a fee for services is expected to cover all or most of the costs of operations, including depreciation. Program/functional expenses are reduced by program specific earned revenues, and by grants, that reduce net expenses for governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining program/functional costs, resulting in an increase or decrease in net assets.

Financial Analysis of the Government as a Whole (Government-Wide Financial Statements)

The District's combined total net assets increased by \$463,102 in fiscal year 2004. The increase is the combination of a governmental activities increase of \$417,177 and an increase for business-type activities of \$45,925. See Table 2, *Change in Net Assets as of September 30, 2004*, on page 24. This was mainly the result of an increase in revenues, more efficient use of resources, and better expenditure management. The increase in business-type activities total net assets was the result of an increase in revenues from charges for services in business-type activities.

Restricted assets are assets whose use is subject to constraints that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or, (b) imposed by law through constitutional provisions or by enabling legislation. In FY 2004, total restricted net assets decreased by \$(30,117), or -2.7%, representing a decrease of \$(62,445), or -7.18%, from governmental activities, and an increase of \$32,328, or 12.33%, from business-type activities.

Each year, the D.C. Lottery transfers substantially all of its net income to the District. In fiscal year 2004, the D.C. Lottery transferred \$73,500 of its residual income to the General Fund. This represents a \$1,450 increase over last year's transfer. Please see Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, on page 43.

Fund balances in the governmental fund financial statements will generally differ from net assets in the governmental activities of the government-wide financial statements due to the basis of accounting used in the respective financial statements. Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting. The Government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting. These differences may result in the Government-wide statements reflecting negative unrestricted net assets. The \$220,336 improvement in the unrestricted net assets was due mainly to increased revenues.

Table 1 - Net Assets as of September 30, 2004

| | Governmental activities | | Business-type activities | | Totals | |
|--|-------------------------|--------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2004 | 2003 (restated) | 2004 | 2003 | 2004 | 2003 (restated) |
| Current and other assets | \$ 2,491,541 | \$ 2,187,604 | \$ 436,861 | \$ 415,645 | \$ 2,928,402 | \$ 2,603,249 |
| Capital assets | 4,716,538 | 4,379,361 | 17,927 | 4,032 | 4,734,465 | 4,383,393 |
| Total assets | <u>7,208,079</u> | <u>6,566,965</u> | <u>454,788</u> | <u>419,677</u> | <u>7,662,867</u> | <u>6,986,642</u> |
| Long-term liabilities | 4,710,163 | 4,365,833 | 66,481 | 64,906 | 4,776,644 | 4,430,739 |
| Other liabilities | 1,286,018 | 1,406,411 | 41,438 | 53,827 | 1,327,456 | 1,460,238 |
| Total Liabilities | <u>5,996,181</u> | <u>5,772,244</u> | <u>107,919</u> | <u>118,733</u> | <u>6,104,100</u> | <u>5,890,977</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 774,533 | 518,223 | 17,927 | 1,354 | 792,460 | 519,577 |
| Restricted | 807,839 | 870,284 | 294,476 | 262,148 | 1,102,315 | 1,132,432 |
| Unrestricted | (370,474) | (593,786) | 34,466 | 37,442 | (336,008) | (556,344) |
| Total net assets | <u>\$ 1,211,898</u> | <u>\$ 794,721</u> | <u>\$ 346,869</u> | <u>\$ 300,944</u> | <u>\$ 1,558,767</u> | <u>\$ 1,095,665</u> |

Table 2 - Change in Net Assets as of September 30, 2004

| | Governmental activities | | Business-type activities | | Total | |
|--|-------------------------|--------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2004 | 2003 (restated) | 2004 | 2003 | 2004 | 2003 (restated) |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 300,110 | \$ 323,161 | \$ 271,677 | \$ 272,014 | \$ 571,787 | \$ 595,175 |
| Operating grant and contributions | 2,060,973 | 1,833,060 | 26,588 | 55,356 | 2,087,561 | 1,888,416 |
| Capital grants and contributions | 151,334 | 176,449 | 15,464 | - | 166,798 | 176,449 |
| General revenues: | | | | | | |
| Property taxes | 1,017,653 | 899,665 | - | - | 1,017,653 | 899,665 |
| Income and franchise taxes | 1,299,009 | 1,167,452 | | | 1,299,009 | 1,167,452 |
| Other taxes | 1,479,809 | 1,314,754 | 103,448 | 82,626 | 1,583,257 | 1,397,380 |
| Other | 355,350 | 363,940 | 17,097 | 19,593 | 372,447 | 383,533 |
| Total revenues | 6,664,238 | 6,078,481 | 434,274 | 429,589 | 7,098,512 | 6,508,070 |
| Expenses: | | | | | | |
| Governmental direction and support | 554,614 | 525,072 | - | - | 554,614 | 525,072 |
| Economic development and regulation | 253,311 | 252,716 | - | - | 253,311 | 252,716 |
| Public safety and justice | 1,007,755 | 936,797 | - | - | 1,007,755 | 936,797 |
| Public education system | 1,301,807 | 1,168,545 | - | - | 1,301,807 | 1,168,545 |
| Human support services | 2,537,195 | 2,572,881 | - | - | 2,537,195 | 2,572,881 |
| Public works | 313,580 | 312,704 | - | - | 313,580 | 312,704 |
| Public transportation | 162,602 | 272,726 | - | - | 162,602 | 272,726 |
| Interest on long-term debt | 189,697 | 178,301 | - | - | 189,697 | 178,301 |
| Lottery and games | - | - | 167,938 | 166,185 | 167,938 | 166,185 |
| Unemployment compensation | - | - | 113,888 | 165,045 | 113,888 | 165,045 |
| Nursing home services | - | - | 33,023 | 34,687 | 33,023 | 34,687 |
| Total expenses | 6,320,561 | 6,219,742 | 314,849 | 365,917 | 6,635,410 | 6,585,659 |
| Increase in net assets before transfers | 343,677 | (141,261) | 119,425 | 63,672 | 463,102 | (77,589) |
| Transfer to nonmajor proprietary funds | - | (34,476) | - | 34,476 | - | - |
| Transfer from lottery and games | 73,500 | 72,050 | (73,500) | (72,050) | - | - |
| Increase (decrease) in net assets | 417,177 | (103,687) | 45,925 | 26,098 | 463,102 | (77,589) |
| Net assets - Oct 1 | 794,721 | 898,408 | 300,944 | 274,846 | 1,095,665 | 1,173,254 |
| Net assets - Sept 30 | \$ 1,211,898 | \$ 794,721 | \$ 346,869 | \$ 300,944 | \$ 1,558,767 | \$ 1,095,665 |

Please refer to Note 1.U – *Reconciliation of Government-Wide and Fund Financial Statements*, on pages 60, for additional information on how to understand the differences between the two bases of accounting that the District uses in this Report.

Chart 1 shows various sources of revenues. This chart is a visual presentation of the numbers that were presented in Table 2, *Change in Net Assets* as of September 30, 2004 on page 24.

Chart 1 – Revenues by Source – Governmental Activities

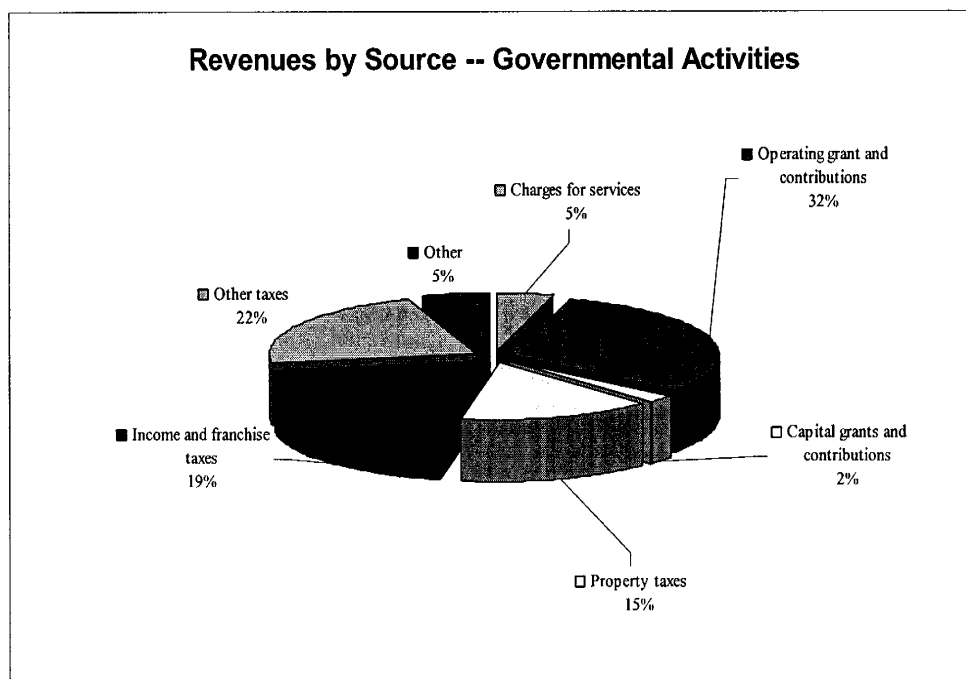
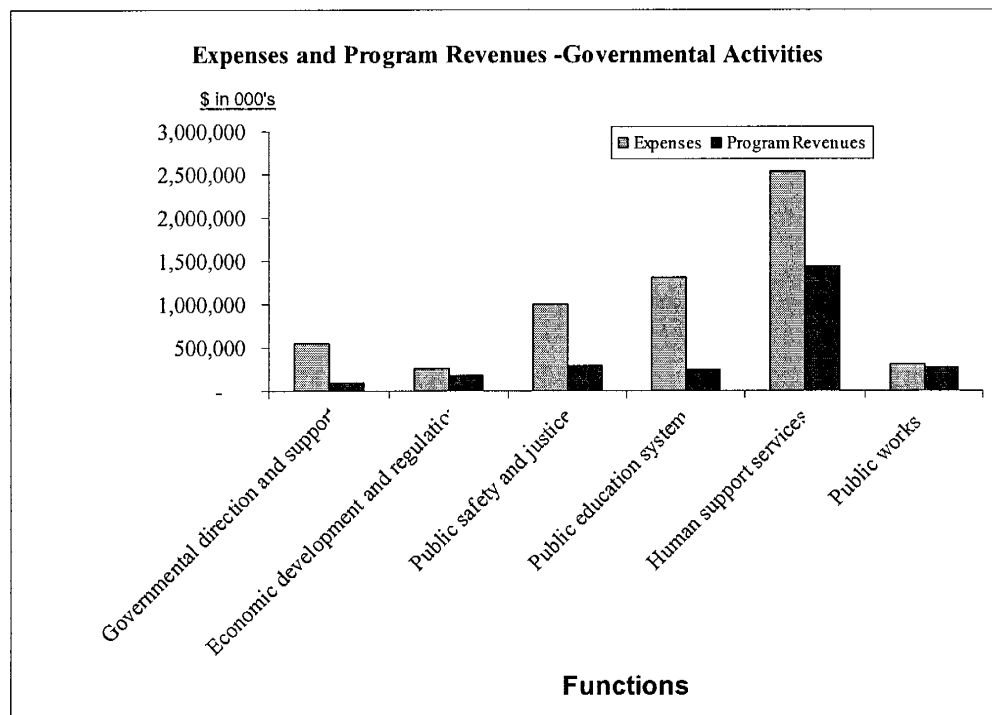


Chart 2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities that are shown are governmental direction and support, economic development and regulation, public safety and justice, public education system, human support services and public works.

Chart 2 - Expenses and Program Revenues – Governmental Activities



REPORTING ON THE DISTRICT'S MOST SIGNIFICANT FUNDS

The fund financial statements presentation will be more familiar to regular readers of the traditional CAFR. Starting in FY 2002, the focus was on major funds and not on fund types. Major funds, as defined by GAAP, are presented individually; with non-major governmental funds combined in a single column (Detail information for individual non-major governmental funds can be found in 'Other Supplementary Information', Exhibits B-1 and B-2). Sources and uses of resources assigned through the financial planning and budgeting process measure the District's ability to fund operations in the short-term.

District laws, bond covenants, and other legal stipulations cause funds to be established for specific purposes and to report on the activities related to supplies and services that they provide to the general public. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. The District's funds are presented in three categories or groups – governmental, proprietary and fiduciary.

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The governmental fund financial statements relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending. Most basic services are found in this fund category and are reported as General, Federal and Private Resources, General Capital Improvements, and Non-major Governmental Funds. These funds are reported using the *modified accrual accounting basis*, which measures cash and other financial assets that can be readily converted to cash. Please refer to Exhibit 2-a, *Balance Sheet – Governmental Funds* and Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, pages 38 and 39, for more detailed information about these funds.

- **Fund Balances:** The governmental funds reported a combined fund balance of \$1,224,788. The components of this combined fund balance are as follow:
 - General Fund - \$1,215,015, an increase of \$317,658 over the previous year.
 - Federal and private resources - \$139,607, a decrease of \$(10,613) over the previous year.
 - General capital improvements - \$(250,152), an increase in the deficit of \$(108,348) over the previous year.
 - Nonmajor governmental funds - \$120,318, a decrease of \$(4,020) over the previous year.

About 73% of the combined fund balance is reserved for commitments related to component funds. The remainder of the combined fund balance is unreserved. \$607,112 of the unreserved fund balance relates to the general fund while the general capital improvements fund reported an unreserved fund deficit of \$(273,432).

- **Revenues:** Real property, deed recordation and deed transfer taxes all increased in FY 2004. These had the same underlying economic cause: the stronger than expected growth in the Washington, D.C. real estate market. Some of the gains came from the increased unit sales of single family homes and condominiums at higher sale and resale values. Commercial retail and office space growth continued, as vacancy rates declined. Other factors were also at work, for example the higher level of federal spending on homeland security had an impact on demand for commercial real estate in Washington, D.C. On the residential side, longer commuting times have made the District a more attractive place to live than the suburbs.

The increase in individual income tax collections was due primarily to the strong recovery of the stock market in the last quarter of 2003. Individual income tax revenue also benefited from a much stronger than expected growth in the wages and salaries of Washington, D.C. residents. The increase in the corporation franchise tax was due mainly to a stronger than expected recovery in corporate profits in 2004 due to the continued high level of productivity.

General fund revenues increased this past year primarily because the District collected more in taxes and other revenues. The revenue sources that contributed to most of the increase in general fund revenues are as follows:

- Income and franchise taxes increased by \$131,557
- Property taxes increased by \$126,089
- Other taxes increased by \$106,330

Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 39, for more detailed information.

- **Expenditures:** The District experienced increases in most of its program/functional areas expenditures, except for public works and public transportation areas, which decreased by \$110,646, caused almost entirely by the decrease in the public transportation subsidy provided to the Washington Metropolitan Area Transit Authority. The other program/functional areas' expenditures were led by the increase of \$129,151 for public education and \$118,310 for human support services. D.C. Public Schools accounted for slightly less than half of the public education increase. This was due mainly to higher personal services cost, and increases in union employee salaries and the hiring of additional employees directed toward accelerating academic achievements. Another large factor in higher public education expenditure was the increase in the number of public charter schools and students attending public charter schools.

The decrease in debt service and capital outlay expenditures of \$83,423 accounted for the remainder of the change in governmental expenditures from FY2003 to FY2004.

General capital improvements expenditures of \$635,208 exceeded the general capital improvements revenues of \$190,369 by \$ (444,839), which created the deficiency shown. This shows that the District is investing more in capital improvements than the available current year revenues before considering current year bond proceeds. The deficiency was financed through the use of bond proceeds. The District is rapidly investing in infrastructure and other improvements to encourage residents and businesses to stay in the District and to attract new residents and businesses. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 39, for more detailed information.

Listed below are the six major infrastructure projects undertaken in FY 2004, (by costs incurred):

- 1) Design/build - 9th Street N.E., Bridge over New York Avenue and Amtrak - \$32,300
- 2) Rehabilitation of Anacostia Freeway - \$11,500
- 3) Barney Circle, asset preservation - \$10,200
- 4) Street repair and management equipment/technical improvement - \$5,800
- 5) Streetlight maintenance - \$5,500
- 6) Traffic Signal Maintenance - \$5,300

The net change in the general capital improvements fund for fiscal year 2004 was a decrease of \$(108,348) after other financing sources of \$336,491 was applied to the \$(444,839) deficit mentioned above. It is the District's financial policy to issue general obligation bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures as opposed to an estimated amount budgeted on an annual basis. The District authorizes agencies to spend their annual appropriated budget in advance of financing. The general fund advances the amount of the funding, and is repaid with the proceeds from the bonds when issued. This allows the District to determine when it will enter the market to issue bonds based upon cash flow needs, favorable market rates and the number of municipal debt financing and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximizes the pool of potential investors for the District's debt issuances. The deficit in this fund will be reduced in subsequent fiscal years by a combination of reductions in capital budget authority, lower annual spending in the general capital improvements program, and pay-as-you-go transfers to the general capital improvements fund from the general fund.

Proprietary Funds

Proprietary funds account for activities of District entities that charge customers for the services provided, whether to outside customers or to other entities of the District. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery) and the Unemployment Compensation Fund (Unemployment) and one non-major proprietary fund which includes the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and the JB Johnson Nursing Center. *Chart 3, Expense and Program Revenues – Business-Type Activities* and *Chart 4, Revenues by Source – Business-Type Activities*, page 28 give a visual comparative presentation of the revenues and expenses of the three funds.

Total assets for Lottery decreased in fiscal year 2004 by \$(7,315), or -8.2%, and increased for Unemployment by \$31,838 , or 10.1%. Net cash provided by (used in) operating activities for Lottery, Unemployment and non-major proprietary funds were \$72,347 , \$(7,466), and \$(19) respectively. See Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, and Exhibit 3-c, *Statement of Cash Flows – Proprietary Funds*, pages 42, 43 and 44 respectively for more detailed information.

Proprietary funds provide supplies and services to the general public and use the *accrual accounting* method for reporting purposes.

The graphic comparisons in Charts 3 and 4 are based upon financial information in Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, page 42, and Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, page 43.

Chart 3 – Expenses and Program Revenues – Business-type Activities

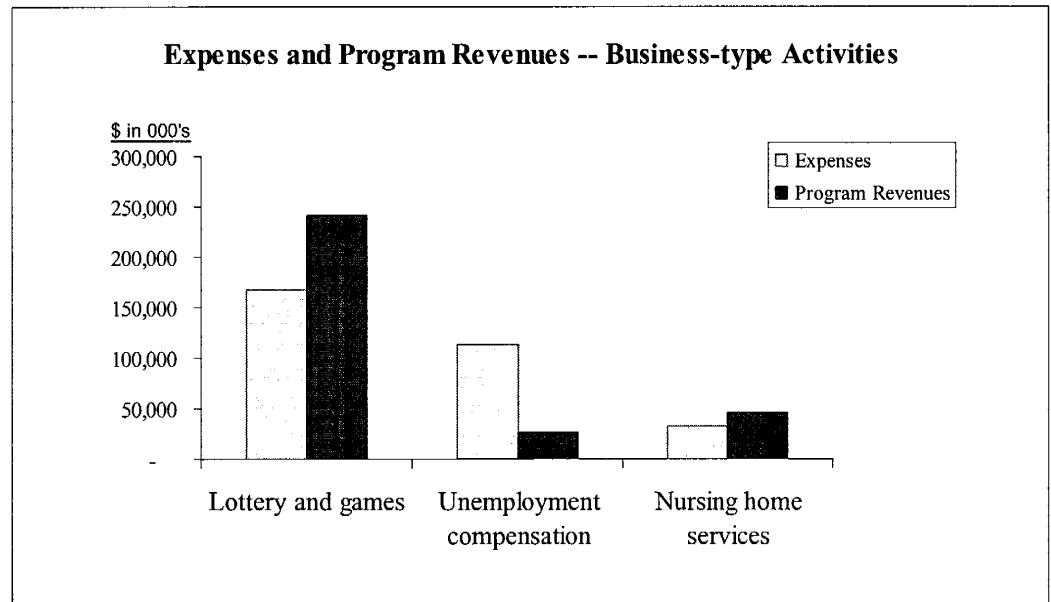
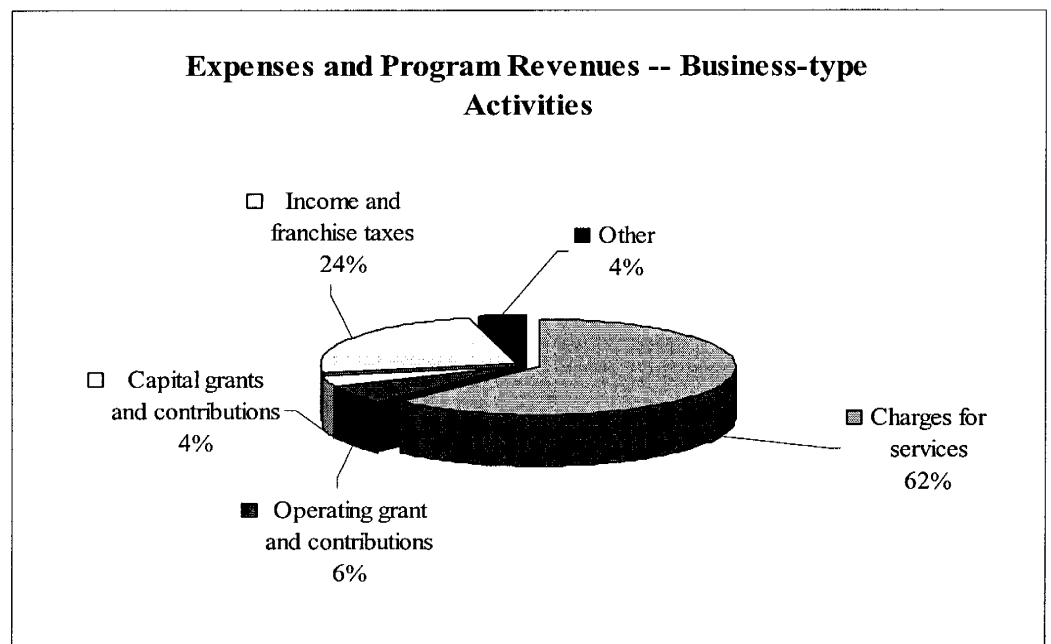


Chart 4 – Revenues by Source – Business-type Activities



Fiduciary Funds

The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the *trustee* or *fiduciary* for its employees' pension plans. All fiduciary activities are reported in the Exhibit 4-a, *Statement of Fiduciary Fund Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Fund Net Assets* on pages 45 and 46, respectively. These activities are excluded from the District's other financial statements because these resources are restricted and are therefore not available for financing other operations.

Private-purpose trust funds are used to report any trust arrangement not reported in pension funds or investment trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to D.C. residents as well as non-residents nationwide. This plan is reported in the Private-purpose trust fund, and was established during FY 2003. Please see Note 1-E, *Fiduciary Funds – Private Purpose Trust Funds* on page 52.

Net assets for the D.C. Police Officers and Fire Fighters' Retirement Fund, and the D.C. Teachers' Retirement Fund increased by \$273,481 and \$119,631, respectively, for a total increase of \$393,112. The increase primarily resulted from net investment income, as both the U.S. equity and non-U.S. equity markets improved for the second straight year.

The Component Units

The District currently has five Component Units: 1)D.C. Water and Sewer Authority, 2)Washington Convention Center Authority, 3)Sports and Entertainment Commission, 4)Housing Finance Agency and 5)University of the District of Columbia. Component units are legally separate organizations for which the elected officials of the District are financially accountable. Accountability exists because the Mayor, with the consent of the Council, or other District officials, appoints the governing bodies of all of the component units. In addition, the District has an obligation to provide financial support to the Convention Center, the Sports and Entertainment Commission, and the University of the District of Columbia, and certain tax revenues are dedicated to each of these organizations. The financial data of the component units are reported separately from the financial data of the primary government.

The five component units had a combined total net assets of \$1,320,869 . Combined total operating revenues of \$392,821 and operating expenses of \$428,306 , resulted in a combined operating loss of \$(35,485) a decrease of \$(11,734) from FY2003. Each of the component units prepares its own independently audited financial statements, which are accompanied by their respective MD&A. Please see Exhibit 5a, *Discretely Presented Component Units - Combining Statement of Net Assets*, page 47, and Exhibit 5b, *Discretely Presented Component Units - Combining Statement of Revenues, Expenses and Changes in Net Assets*, page 48, for more detailed financial information on the component units.

Short-Term Debt

The District issues short-term debt, when necessary, to finance seasonal cash flow needs. This need occurs due to the timing variance between receipts of taxes, grants and other revenues and the outflow of funds for governmental operations and other required disbursements. On December 2, 2003, the District issued fixed-rate General Obligation Tax Revenue Anticipation Notes in the aggregate amount of \$250,000. The proceeds of these notes were used to fund the District's seasonal cash flow needs. These notes were issued as fixed-rate notes, and matured and were repaid on September 30, 2004. Whenever the District issues short-term debt, it must be paid off in its entirety by September 30 of that fiscal year.

Long-Term Debt and Bond Ratings

On December 11, 2003, the District issued its fixed-rate Series 2003B General Obligation Bonds in the aggregate amount of \$173,995, and its variable-rate Series 2003C and 2003D Multimodal General Obligation Bonds in the aggregate principal amount of \$140,325 to finance a portion of the District's FY2004 capital improvements program. The final maturities of the Series 2003B, 2003C and 2003D Bonds are June 1, 2021, 2028, and 2026, respectively.

In April 2004, Moody's Investors Service upgraded the District's bond rating from Baa1 to A2. The upgrade stems from the financial results shown in the FY 2003 Annual Audit and the District's action taken to close a large projected budget gap in FY 2004. In June 2003, the District's Mayor and CFO jointly announced that Fitch Ratings and Standard and Poor's had also upgraded the District's General Obligation Bonds to A- from BBB+, thus demonstrating that the District continues to receive the confidence of Wall Street analysts. In November 2004, Standard & Poor's upgraded the District's general obligation

bonds to A from A-, based on its stable economic outlook. Each time the District issues new debt, the current debt rating is reviewed for the new issuance. It is at that time that the bond rating agencies access the District's financial condition and change it when warranted. Bond rating agencies will also periodically review the District's overall financial condition for possible adjustments to its bond rating. In November 2004, Standard and Poor's upgraded the District's bond rating from A- to A and Fitch Ratings changed the District's bond rating outlook from stable to positive.

The improved bond ratings allows the District to either refinance outstanding debt, or to issue new debt, at more favorable rates than in the past when the District's financial and operational difficulties required the District to pay substantially higher interest rates for its debt. Lower interest rates translate into lower debt service payments, resulting in a greater percentage of the District's budget being available for the needed services and operations for its citizens.

At September 30, 2004 the District had a total of \$4,048,753 in general obligation bonds, TIF Bonds and Notes, Qualified Zone Academy Bonds (QZAB), and Tobacco Bonds outstanding. Please refer to Table 3, *Outstanding Bonds and Notes at September 30, 2004*. This is an increase of \$162,234 over last year's figure of \$3,886,519. This is the result of the District issuing new general obligation bonds, which were offset by payments against matured debt during the year. General obligation bonds represent 84.4% of the District's outstanding bonds and notes, while TIF bonds and notes and QZAB represent 3.1% and Tobacco Bonds Outstanding represent 12.4% of the District's outstanding long-term debt. The District's borrowing has been increasing over the past few years to invest in improvements in infrastructure, such as roads, streets, bridges and buildings. (Please see *Note 8. Long-Term Liabilities*, pages 74-81 for a more detailed discussion).

On November 17, 2004, the District entered into a floating-to-fixed interest rate swap in connection with the issuance of \$38,250 General Obligation Bonds, Series 2004B ("2004B Swap"). The original notional amount of the swap is \$38,250. Under the terms of the 2004B Swap, scheduled to terminate in 2020, the District pays fixed rates of 4.598% in 2014, 4.701% in 2015, 4.794% in 2016 and 5.121% in 2020, and receives variable rate payments equal to the MUNI-CPI rate which is the actual rate on the Series 2004B Bonds. The notional value of the 2004B Swap and the principal amount of the associated debt service begins to decline in fiscal year 2013.

On December 8, 2004, the District issued its Series 2004A General Obligation Bonds in the aggregate principal amount of \$200,870. The proceeds of these bonds will be used to finance a portion of the District's fiscal year 2005 capital improvements program. Also, on December 8, 2004, the District issued its Series 2004B General Obligation Bonds in the principal amount of \$38,250 and Multimodal General Obligation Bonds, Series 2004C in the aggregate principal amount of \$147,250 (sub-Series 2004C-1, Sub-Series 2004C-2 and Sub-Series 2004C-3 in the amounts of \$50,000, \$48,175 and \$49,075 respectively). The proceeds of these bonds are also being used to finance a portion of the District's fiscal year 2005 capital improvements program. The 2004A Bonds were issued as fixed-rate bonds. The 2004B bonds were issued as CPI Bonds. The Series 2004C Sub-series 2004C-1, Sub-series 2004C-2 and Sub-series 2004C-3, were issued as Auction Rate Securities. The final maturities of the Series 2004A, 2004B and 2004C Bonds are June 1, 2027, 2020, and 2034, respectively.

The District had \$6,177 of general obligation debt per capita (D.C. resident) as of September 30, 2004, an increase of \$347, or 6.0% from the amount on September 30, 2003 of \$5,830 per capita. This increase is due to the District's issuance of additional general obligation debt, and a decrease in the U.S. Census population estimate for the District. Each year, after the 2000 Census, and until the 2010 Census, all previously estimated population figures are adjusted. As a result, the debt per capita figure that was given in last year's CAFR will not correspond to the figure given in this year's CAFR. Please refer to Exhibit S-3B, *Ratios of General Bonded Debt Outstanding -- Last Ten Years* on page 136.

Table 3 – Outstanding Bonds and Notes at September 30, 2004

| Long-Term Debt (\$ in thousands) | | | | |
|-------------------------------------|-----------|------------------|------------------|----------------|
| | | 2004 | 2003 | Variance |
| General Obligation Bonds | \$ | 3,418,933 | \$ 3,251,118 | \$ 167,815 |
| TIF Bonds and Notes | | 124,009 | 125,524 | (1,515) |
| Qualified Zone Academy Bonds | | 3,071 | 3,327 | (256) |
| Tobacco Bonds | | 502,740 | 506,550 | (3,810) |
| Total | \$ | 4,048,753 | 3,886,519 | 162,234 |

Capital Assets

As of September 30, 2004 the District had \$4,716,538 in governmental activities net capital assets and \$17,927 in business-type activities net capital assets, for a total of \$4,734,465 net capital assets. These capital assets include, but are not limited to, land, buildings, police and fire equipment, park facilities, roads and bridges. The governmental activities depreciation charges for the current fiscal year totaled \$189,835 compared to last year's \$200,651. The general capital improvements fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants or debt. Please see Table 4, *Net Capital Assets*, below for more details.

The District's capital assets increased by \$351,072 or 8.0%, over its capital assets as of September 30, 2003. This amount was made up of an increase of governmental activities capital assets of \$337,177 or 7.7% and an increase in capital assets from business-type activities of \$13,895, or 344.6%. The District's depreciation charges decreased by \$(23,191), or -11.6%, during the past year. The District's capital assets are increasing because the District is investing more resources in new and rehabilitated infrastructure, such as roads, bridges and buildings. This increase in assets is being funded primarily by the increase in revenues and also in debt. Please see Note 5. - *Capital Assets* for a more complete discussion of the District's capital assets, on pages 68-73.

Table 4 – Net Capital Assets as of September 30, 2004

| Asset Category | Governmental activities | | Business-type activities | | Total | |
|---------------------------------|-------------------------|---------------------|--------------------------|-----------------|---------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Land | \$ 217,941 | \$ 219,076 | \$ 1,264 | \$ - | \$ 219,205 | \$ 219,076 |
| Buildings | 1,433,957 | 1,432,360 | 13,668 | - | 1,447,625 | 1,432,360 |
| Infrastructure | 1,513,991 | 1,360,222 | - | - | 1,513,991 | 1,360,222 |
| Equipment | 231,233 | 228,902 | 2,994 | 4,032 | 234,227 | 232,934 |
| Construction in progress | 1,319,416 | 1,138,801 | - | - | 1,319,416 | 1,138,801 |
| Total net capital assets | \$ 4,716,538 | \$ 4,379,361 | \$ 17,926 | \$ 4,032 | \$ 4,734,464 | \$ 4,383,393 |

REPORTING THE DISTRICT'S BUDGET

The District's budget is always subject to revision and/or veto by the United States Congress and the President of the United States. As the budget moves through the federal budgetary process, there may be additions, deletions and changes in both the amounts and the purposes. In addition, as the District's CFO prepares revised revenue estimates, the District must revise the budget submission to conform to the new estimates. Before the FY 2004 budget was enacted, the CFO's revised estimates caused the District to revise its budget submission. The budget has to be balanced, as required by both U.S. and District Laws.

General Fund Budget

The originally formulated general fund budget estimated total revenues and other sources of \$4,059,672 and total expenditures and other uses of \$4,057,834, showing a projected budgetary surplus of \$1,838. The general fund budget was revised, resulting in estimated total revenues and other sources of \$4,165,453 and total expenditures and other uses of \$4,099,185, representing a projected budgetary surplus of \$66,268. See Table 5, *Fiscal Year 2004 – General Fund Budgetary Highlights* on page 32 for more details.

Table 5 - Fiscal Year 2004 General Fund Budgetary Highlights

| | Budget | | Actual | Variance |
|--|------------------|------------------|-------------------|-------------------|
| | Original | Revised | | Over(under) |
| Revenues and Other Sources: | | | | |
| Property taxes | \$ 999,468 | \$ 976,837 | \$ 1,027,976 | \$ 51,139 |
| Other taxes | 2,373,904 | 2,494,380 | 2,637,219 | 142,839 |
| Charges for services | 294,501 | 286,672 | 323,699 | 37,027 |
| Other sources and contributions | 172,506 | 168,027 | 240,253 | 72,226 |
| All other sources | 219,293 | 239,537 | 203,422 | (36,115) |
| Total revenues and other sources | 4,059,672 | 4,165,453 | 4,432,569 | 267,116 |
| Expenditures and Other Uses: | | | | |
| Governmental direction and support | 226,975 | 246,639 | 231,364 | (15,275) |
| Economic development and regulation | 185,445 | 189,275 | 148,949 | (40,326) |
| Public safety and justice | 735,659 | 764,186 | 746,066 | (18,120) |
| Public education system | 970,581 | 979,362 | 975,995 | (3,367) |
| AY05 public education expenditures | - | 53,198 | 53,198 | - |
| Human support services | 1,109,607 | 1,132,128 | 1,117,035 | (15,093) |
| Public works | 321,772 | 322,423 | 314,620 | (7,803) |
| Other | 507,795 | 411,974 | 400,963 | (11,011) |
| Total expenditures and other uses | 4,057,834 | 4,099,185 | 3,988,190 | (110,995) |
| Excess (deficit) -- budgetary basis | \$ 1,838 | \$ 66,268 | \$ 444,379 | \$ 378,111 |
| Nonbudgetary adjustments, net | | | (126,721) | |
| Surplus | | | \$ 317,658 | |

General Fund Budgetary Highlights

The differences between the proposed General Fund budget and the final amended budget reflect adjustments to bring the budget into alignment/agreement with the required revenue and spending projections prior to final enactment by the U.S. Congress. These are summarized as follows:

- Property taxes were decreased by \$22,631.
- Other taxes were increased by \$120,476.
- The largest decrease in expenditures of \$95,821 was for Other, which represents various nonfunctional expenditures on a budgetary basis.
- The largest increase in expenditures of \$53,198 was for Appropriation Year 2005 public education expenditures, necessary to ready the public schools for the new school year which began prior to the District's fiscal year-end.

The projected General Fund budgetary basis excess was increased from \$1,838 to \$66,268 due to the increased projection for total revenues and the decreased projection for expenditures.

General Fund Budget to Actual Highlights

The difference between the General Fund final amended budget and actual operating results are reflected and summarized as follows:

- Other taxes collected were \$142,829 more than expected.
- Other sources and contributions were \$72,226 higher than expected.
- Property taxes were \$51,139 higher than expected.
- Total expenditures were \$110,995 less than expected.
- Economic development expenditures were \$40,326 less than expected, or 36.3% of the total expenditures decrease.

As a result of the \$267,116 positive variance in total revenues and other sources, and the negative variance of \$110,995 in total expenditures and other uses, the District completed the year with a budgetary basis excess of \$378,111.

The primary reason for this substantial increase in the budgetary basis excess was the improved Washington, D.C. economy and real estate market. There were also significant increases in all property related taxes and fees, individual income tax, corporate franchise taxes and miscellaneous taxes. The District also spent less than budgeted in a number of areas, most significantly in economic development and regulation, as noted above. The next three largest variances from budget, were also negative:

- (1) public safety and justice which was \$(18,120)
- (2) governmental direction and support which was \$(15,275)
- (3) human support services which was \$(15,093)

Please refer to Exhibit 2-d, *Budgetary Comparison Statement* on page 41 for details of the actual budgetary variances.

As mentioned above, revenues were generally higher due to the continued strength of property tax collections, while operating grants were lower than expected. Please see Exhibit 2-d, *Budgetary Comparison Statement* on page 41 for additional details on the District's FY 2004 budgetary results.

PROPOSED FINANCING OF MAJOR LEAGUE BASEBALL STADIUM

On September 29, 2004, the District announced that an agreement was reached with Major League Baseball (MLB) that would allow the then-Montreal Expos to move to Washington, D.C. and to begin playing at Robert F. Kennedy Stadium next year and until a new 41,000 seat stadium is constructed. On December 21, 2004, the D.C. Council and the Mayor agreed to the proposed stadium financing package, and the Mayor signed the financing package into law on December 29, 2004. Included in the legislation, is approximately \$24 million to renovate and prepare RFK Stadium for an exhibition game on April 3, 2005 and an opening day game with the Arizona Diamondbacks on April 14, 2005.

Construction of the new Baseball Stadium will be the responsibility of the D.C. Sports & Entertainment Commission. The revenue bonds will be backed by a new gross receipts fee on large businesses, a utilities tax on businesses and federal users, and the projected stadium related revenue streams, such as dedicated sales taxes from baseball related items and stadium rent payments. These bonds will not be backed by the full faith and credit of the District. The final legislation reduced the District's liability for certain cost overruns in constructing the stadium. In addition, MLB and the District agreed to share the insurance costs for delays due to weather. MLB will be liable for damages if the team is moved out of the District prior to the end of the lease term of the new stadium.

The District will acquire the 21-acres of land in the area that has been selected for the new baseball stadium from the current owners. It is possible that the District will use its powers of eminent domain to assist in the acquisition of the needed properties if any of the current owners refuse to sell. The District's CFO must complete a cost analysis of the land for the stadium and related infrastructure by May 15, 2005. The architect will be selected by mid-February 2005 and construction is to begin within a year. A land-use plan is scheduled to be completed by April 2005.

2005 U.S. PRESIDENTIAL INAUGURATION

District officials were informed in late-2004 that the federal government was breaking with its practice during previous presidential inaugurations by refusing to reimburse the District for most of the costs associated with the January 20, 2005 event. The District estimated that it would spend \$17.3 million for expenditures associated with the inauguration, most of it related to security. The federal government had suggested that the District cover the non-reimbursed expenses by using some of its federal homeland security grants that it has received over the past three years. However, that money is earmarked for other security needs.

In early January 2005, the federal government announced that it will reimburse the District approximately \$12 million under the Urban Area Security Initiative grant fund, which the U.S. Department of Homeland Security administers for security needs in the Washington region when unforeseen events occur. The District will continue to push the federal government for a separate appropriation to cover all of the District's inauguration related expenses, and not force the District to use critical homeland security funds.

CONTACTING THE DISTRICT'S OFFICE OF THE CHIEF FINANCIAL OFFICER

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For additional information on the District's component units: the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia, please refer to page 51 of the notes to the basic financial statements that has contact information for those organizations. If you have any questions about this report, the District's Fiscal year 2004 CAFR, suggestions for improvement, or need additional financial information, please contact:

The Office of the Chief Financial Officer
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 209
Washington, D.C. 20004
(202) 727-2476
www.dccfo.com

BASIC FINANCIAL STATEMENTS

The basic financial statements include two kinds of financial statements that present different views of the District: *Government-Wide Financial Statements* and *Fund Financial Statements*.

These financial statements also include the Notes to the Basic Financial Statements that explain some of the information in the financial statements and provide more detail.

Exhibit 1-a

District of Columbia
Statement of Net Assets
September 30, 2004
(With Comparative Totals at September 30, 2003)
(\$000s)

| | Primary Government | | | | |
|---|--------------------|---------------|--------------|--------------|--------------|
| | Governmental | Business-Type | Totals | | Component |
| | Activities | Activities | 2004 | 2003 | Units |
| ASSETS | | | | | |
| Cash and cash equivalents (unrestricted) | \$ 552,697 | \$ 24,592 | \$ 577,289 | \$ 713,515 | \$ 84,478 |
| Investments (unrestricted) | 8,615 | 12,074 | 20,689 | 54,772 | 104,665 |
| Accrued interest receivable, net | 19 | - | 19 | - | - |
| Due from federal government | 473,756 | 6,978 | 480,734 | 423,134 | 26,893 |
| Taxes receivable, net | 231,174 | - | 231,174 | 226,189 | - |
| Accounts receivable, net | 106,842 | 29,778 | 136,620 | 124,139 | 48,192 |
| Other receivables | 47,938 | - | 47,938 | 31,083 | 21,544 |
| Due from primary government | - | - | - | - | 28,209 |
| Due from component units | 13,372 | - | 13,372 | 957 | - |
| Due from fiduciary funds | - | - | - | 742 | - |
| Internal balances | 25,717 | (25,717) | - | - | - |
| Inventories | 12,255 | 485 | 12,740 | 14,905 | 6,984 |
| Other current assets | 16,071 | 471 | 16,542 | 19,274 | 614 |
| Cash and cash equivalents (restricted) | 993,935 | 321,697 | 1,315,632 | 917,799 | 295,521 |
| Investments (restricted) | - | 66,481 | 66,481 | 64,906 | 748,762 |
| Other long term assets | 9,150 | 22 | 9,172 | 11,834 | 4,151 |
| Notes and loans receivable, net | - | - | - | - | 348,874 |
| Deferred charges | - | - | - | - | 53,531 |
| Depreciable capital assets, net | 3,179,181 | 16,663 | 3,195,844 | 3,025,516 | 2,150,269 |
| Non-depreciable capital assets | 1,537,357 | 1,264 | 1,538,621 | 1,357,877 | 569,070 |
| Total assets | 7,208,079 | 454,788 | 7,662,867 | 6,986,642 | 4,491,757 |
| LIABILITIES | | | | | |
| Accounts payable | 654,716 | 30,947 | 685,663 | 592,882 | 124,895 |
| Compensation payable | 165,025 | 1,595 | 166,620 | 157,659 | 10,752 |
| Due to primary government | - | - | - | - | 13,372 |
| Due to component units | 28,209 | - | 28,209 | 24,961 | - |
| Due to fiduciary funds | 701 | - | 701 | - | - |
| Deferred revenues | 188,242 | 306 | 188,548 | 172,394 | 41,528 |
| Accrued liabilities | 153,542 | 8,575 | 162,117 | 183,267 | 83,222 |
| Accrued interest payable | 47,342 | - | 47,342 | 46,753 | - |
| Other current liabilities | 48,241 | 15 | 48,256 | 41,644 | 10,137 |
| Long-term liabilities: | | | | | |
| Due within one year | 305,916 | 8,631 | 314,547 | 240,678 | 37,479 |
| Due in more than one year | 4,404,247 | 57,850 | 4,462,097 | 4,430,739 | 2,849,503 |
| Total liabilities | 5,996,181 | 107,919 | 6,104,100 | 5,890,977 | 3,170,888 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 774,533 | 17,927 | 792,460 | 519,577 | 902,204 |
| Restricted for: | | | | | |
| Expendable | | | | | |
| Debt service | 239,225 | - | 239,225 | 213,217 | - |
| Benefit payments | - | 294,476 | 294,476 | 297,563 | - |
| Capital projects | 43,914 | - | 43,914 | 27,483 | - |
| Grants and contributions | 239,291 | - | 239,291 | 150,220 | - |
| Emergency reserves | 285,409 | - | 285,409 | 334,365 | - |
| Other | - | - | - | 109,584 | 171,152 |
| Nonexpendable | - | - | - | - | 7,242 |
| Unrestricted | (370,474) | 34,466 | (336,008) | (556,344) | 240,271 |
| Total net assets | \$ 1,211,898 | \$ 346,869 | \$ 1,558,767 | \$ 1,095,665 | \$ 1,320,869 |

The accompanying notes are an integral part of this statement.

Exhibit 1-b

District of Columbia
Statement of Activities
For the Year Ended September 30, 2004
(With Comparative Totals for the Year Ended September 30, 2003)
(\$000s)

| Functions/Programs Primary government: | Program Revenues | | | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--|---------------------|--|--|--|----------------------------|--|--------------------|--------------------|--------------------|
| | Expenses | Charges for Services, Fees, Fines & Forfeits | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Primary Government | | Totals | Component Units |
| | | | | | | Business-Type Activities | 2004 | | |
| Governmental activities: | | | | | | | | | |
| Governmental direction and support | \$ 554,614 | \$ 23,361 | \$ 68,663 | \$ 8,102 | \$ (454,488) | \$ | \$ (454,488) | \$ (416,032) | |
| Economic development and regulation | 253,311 | 83,866 | 87,523 | - | (81,922) | | (81,922) | (77,909) | |
| Public safety and justice | 1,007,755 | 54,233 | 233,438 | 8,969 | (711,115) | | (711,115) | (666,303) | |
| Public education system | 1,301,807 | 76 | 245,355 | 53 | (1,056,323) | | (1,056,323) | (940,921) | |
| Human support services | 2,537,195 | 3,699 | 1,420,011 | 4,607 | (1,108,878) | | (1,108,878) | (1,311,258) | |
| Public works | 313,580 | 134,875 | 5,983 | 129,603 | (43,119) | | (43,119) | (23,622) | |
| Public transportation | 162,602 | - | - | - | (162,602) | | (162,602) | (272,726) | |
| Interest on long-term debt | 189,697 | - | - | - | (189,697) | | (189,697) | (178,301) | |
| Total governmental activities | 6,320,561 | 300,110 | 2,060,973 | 151,334 | (3,808,144) | | (3,808,144) | (3,887,072) | |
| Business-type activities: | | | | | | | | | |
| Lottery and Games | 167,938 | 241,133 | - | - | \$ 73,195 | \$ 73,195 | 73,195 | 71,705 | |
| Unemployment compensation | 113,888 | - | 26,588 | - | (87,300) | (87,300) | (87,300) | (109,689) | |
| Nursing home services | 33,023 | 30,544 | - | 15,464 | 12,985 | 12,985 | 12,985 | (563) | |
| Total business-type activities | 314,849 | 271,677 | 26,588 | 15,464 | (1,120) | (1,120) | (1,120) | (38,547) | |
| Total primary government | \$ 6,635,410 | \$ 571,787 | \$ 2,087,561 | \$ 166,798 | (3,808,144) | (1,120) | (3,809,264) | (3,925,619) | |
| Component units: | | | | | | | | | |
| Water and sewer | \$ 270,526 | \$ 261,907 | \$ - | \$ 31,455 | | | | \$ 22,836 | |
| Convention center | 92,966 | 12,441 | - | - | | | | (80,525) | |
| Sports commission | 9,719 | 6,255 | - | - | | | | (3,464) | |
| Housing finance | 69,299 | 53,636 | - | - | | | | (15,663) | |
| University | 96,381 | 14,249 | 23,741 | 8,012 | | | | (50,379) | |
| Total component units | \$ 538,891 | \$ 348,488 | \$ 23,741 | \$ 39,467 | | | | (127,195) | |
| General revenues: | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Property taxes | | | | | 1,017,653 | - | 1,017,653 | 899,665 | - |
| Sales and use taxes | | | | | 828,391 | - | 828,391 | 779,920 | - |
| Income and franchise taxes | | | | | 1,299,009 | - | 1,299,009 | 1,167,452 | - |
| Gross receipts taxes | | | | | 271,897 | - | 271,897 | 261,643 | - |
| Other taxes | | | | | 379,521 | 103,448 | 482,969 | 355,817 | - |
| Grants and contributions not restricted to specific programs | | | | | 24,543 | - | 24,543 | 25,070 | - |
| Investment earnings | | | | | 16,211 | 16,847 | 33,058 | 32,673 | 15,973 |
| Miscellaneous | | | | | 314,596 | 250 | 314,846 | 21,407 | 15,973 |
| Subsidy from primary government | | | | | - | - | - | - | - |
| Transfer from lottery and games | | | | | 73,500 | (73,500) | - | 113,061 | - |
| Total general revenues and transfers | | | | | 4,223,321 | 47,045 | 4,272,366 | 3,848,030 | - |
| Change in net assets | | | | | 417,177 | 45,925 | 463,102 | (77,589) | 23,246 |
| Net assets at October 1, as restated | | | | | 794,721 | 300,944 | 1,095,665 | 1,173,254 | 1,297,623 |
| Net assets at September 30 | | | | | \$ 1,211,898 | \$ 346,869 | \$ 1,558,767 | \$ 1,095,665 | \$ 1,320,869 |

The accompanying notes are an integral part of this statement.

Exhibit 2-a

District of Columbia
Balance Sheet
Governmental Funds
September 30, 2004
(With Comparative Totals at September 30, 2003)
(\$000s)

| | General | Federal & Private Resources | General Capital Improvements | Nonmajor Governmental Funds | Total Governmental Funds | |
|--|---------------------|-----------------------------------|------------------------------------|-----------------------------------|-----------------------------|---------------------|
| | | | | | 2004 | 2003 |
| ASSETS | | | | | | |
| Cash and cash equivalents (unrestricted) | \$ 436,041 | \$ 109,954 | \$ - | \$ 6,702 | \$ 552,697 | \$ 689,795 |
| Investments (unrestricted) | - | - | - | 8,615 | 8,615 | 46,141 |
| Accrued interest receivable | - | - | - | 19 | 19 | 14 |
| Due from federal government | - | 392,998 | 80,758 | - | 473,756 | 416,306 |
| Taxes receivable, net | 227,988 | - | - | 3,186 | 231,174 | 226,189 |
| Accounts receivable, net | 60,486 | 12,146 | 5,536 | 28,674 | 106,842 | 89,171 |
| Other receivables | - | 47,938 | - | - | 47,938 | 42,903 |
| Due from component units | 13,372 | - | - | - | 13,372 | 957 |
| Due from other funds | 574,425 | 27,266 | - | 707 | 602,398 | 289,156 |
| Inventories | 9,999 | 2,256 | - | - | 12,255 | 14,258 |
| Other current assets | - | - | 16,071 | - | 16,071 | 4,529 |
| Cash and cash equivalents (restricted) | 629,068 | 29,673 | 252,152 | 83,042 | 993,935 | 620,236 |
| Other long term assets | 5,546 | 3,604 | - | - | 9,150 | 11,834 |
| Total assets | \$ 1,956,925 | \$ 625,835 | \$ 354,517 | \$ 130,945 | \$ 3,068,222 | \$ 2,451,489 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | 361,203 | 143,795 | 140,986 | 8,732 | 654,716 | 559,734 |
| Compensation payable | 146,142 | 16,632 | 2,239 | 12 | 165,025 | 155,798 |
| Due to other funds | 2,952 | 169,767 | 404,663 | - | 577,382 | 263,885 |
| Due to component units | 28,209 | - | - | - | 28,209 | 24,961 |
| Deferred revenue | 98,147 | 81,568 | 34,789 | 1,815 | 216,319 | 210,636 |
| Accrued liabilities | 79,262 | 74,212 | - | 68 | 153,542 | 174,518 |
| Other current liabilities | 25,995 | 254 | 21,992 | - | 48,241 | 31,846 |
| Total liabilities | 741,910 | 486,228 | 604,669 | 10,627 | 1,843,434 | 1,421,378 |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| General fund expenditures | 607,903 | - | - | - | 607,903 | 568,243 |
| Special revenue funds expenditures | - | 139,607 | - | 99,684 | 239,291 | 249,434 |
| Capital project expenditures | - | - | 23,280 | 20,634 | 43,914 | 52,607 |
| Unreserved, reported in: | | | | | | |
| General fund | 607,112 | - | - | - | 607,112 | 329,114 |
| Capital projects funds | - | - | (273,432) | - | (273,432) | (169,287) |
| Total fund balances (deficit) | 1,215,015 | 139,607 | (250,152) | 120,318 | 1,224,788 | 1,030,111 |
| Total liabilities and fund balances | \$ 1,956,925 | \$ 625,835 | \$ 354,517 | \$ 130,945 | | \$ 2,451,489 |

Amounts reported for governmental activities in the statement of net assets (Exhibit 1a) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds

4,716,538

Certain long term assets are not available to pay current period expenditures and are therefore deferred in the funds

28,077

Certain liabilities (such as bonds payable and accrued expenses) are not due and payable in the current period

General obligation bonds 3,418,933
Tobacco settlement bonds 502,740
TIF bonds & notes 124,009
QZAB 3,071
Accrued interest payable 47,342
Capital leases 84,456
Other long-term liabilities 576,954

(4,757,505)

Net assets of governmental activities

\$ 1,211,898

The accompanying notes are an integral part of this statement.

Exhibit 2-b

District of Columbia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2004
(With Comparative Totals for the Year Ended September 30, 2003)
(\$000s)

| | General | Federal & Private Resources | General Capital Improvements | Nonmajor Governmental Funds | Total Governmental Funds | |
|--|------------------|-----------------------------------|------------------------------------|-----------------------------------|-----------------------------|------------------|
| | | | | | 2004 | 2003 |
| REVENUES | | | | | | |
| Taxes: | | | | | | |
| Property taxes | \$ 1,027,976 | \$ - | \$ - | \$ 112 | \$ 1,028,088 | \$ 901,887 |
| Sales and use taxes | 826,169 | - | - | 2,222 | 828,391 | 779,920 |
| Income and franchise taxes | 1,299,009 | - | - | - | 1,299,009 | 1,167,452 |
| Gross receipts taxes | 271,897 | - | - | - | 271,897 | 261,643 |
| Other taxes | 379,521 | - | - | - | 379,521 | 273,191 |
| Fines and forfeitures | 102,828 | - | - | - | 102,828 | 90,238 |
| Licenses and permits | 62,968 | - | - | - | 62,968 | 62,189 |
| Charges for services | 130,789 | 3,525 | - | - | 134,314 | 170,736 |
| Investment earnings | 12,016 | 976 | 530 | 2,689 | 16,211 | 13,341 |
| Miscellaneous | 211,842 | 16,386 | 38,505 | 38,306 | 305,039 | 320,460 |
| Federal contributions | - | 384,958 | 8,970 | - | 393,928 | 380,100 |
| Operating grants | 1,291 | 1,699,267 | 142,364 | - | 1,842,922 | 1,555,404 |
| Total revenues | 4,326,306 | 2,105,112 | 190,369 | 43,329 | 6,665,116 | 5,976,561 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Governmental direction and support | 405,015 | 77,976 | - | 194 | 483,185 | 415,591 |
| Economic development and regulation | 145,453 | 90,767 | - | - | 236,220 | 224,811 |
| Public safety and justice | 747,769 | 236,293 | - | - | 984,062 | 907,670 |
| Public education system | 1,029,624 | 254,824 | - | - | 1,284,448 | 1,155,297 |
| Human support service | 1,119,360 | 1,444,286 | - | - | 2,563,646 | 2,445,336 |
| Public works | 152,580 | 11,579 | - | 72 | 164,231 | 164,753 |
| Public transportation | 162,602 | - | - | - | 162,602 | 272,726 |
| Debt service: | | | | | | |
| Principal | 146,761 | - | - | 5,325 | 152,086 | 149,792 |
| Interest | 152,720 | - | - | 36,977 | 189,697 | 178,301 |
| Fiscal charges | 13,721 | - | - | - | 13,721 | 15,338 |
| Capital outlay | - | - | 635,208 | 31,441 | 666,649 | 762,145 |
| Total expenditures | 4,075,605 | 2,115,725 | 635,208 | 74,009 | 6,900,547 | 6,691,760 |
| Excess (deficiency) of revenues over expenditures | 250,701 | (10,613) | (444,839) | (30,680) | (235,431) | (715,199) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from sale of bonds | 10,057 | - | 315,669 | - | 325,726 | 1,019,873 |
| Proceeds from bond escrow restructuring | - | - | - | 9,557 | 9,557 | - |
| Payment to refunded bond escrow agent | - | - | - | - | - | (234,179) |
| Proceeds from capital lease | 503 | - | - | - | 503 | - |
| Equipment financing program | - | - | 20,822 | - | 20,822 | 17,094 |
| Transfers in | 83,057 | - | - | 26,660 | 109,717 | 77,119 |
| Transfers out | (26,660) | - | - | (9,557) | (36,217) | (34,476) |
| Total other financing sources (uses) | 66,957 | - | 336,491 | 26,660 | 430,108 | 845,431 |
| Net change in fund balances | 317,658 | (10,613) | (108,348) | (4,020) | 194,677 | 130,232 |
| Fund balances (deficit) at October 1, as restated | 897,357 | 150,220 | (141,804) | 124,338 | 1,030,111 | 899,879 |
| Fund balances (deficit) at September 30 | \$ 1,215,015 | \$ 139,607 | \$ (250,152) | \$ 120,318 | \$ 1,224,788 | \$ 1,030,111 |

The accompanying notes are an integral part of this statement.

Exhibit 2-c

District of Columbia
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2004
(\$000s)

| | | |
|--|----|---------|
| Net change in fund balances - total governmental funds | \$ | 194,677 |
|--|----|---------|

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|--|---------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. | | 337,178 |
|--|--|---------|

| | | |
|--|--|----------|
| Deferred property tax revenues which were earned but whose current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. This is the amount deferred property taxes decreased in the governmental funds between 2003 and 2004. | | (10,435) |
|--|--|----------|

| | | |
|---|--|-----------|
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bond proceeds exceeded repayments. | | (157,984) |
|---|--|-----------|

| | | |
|--|--|--------|
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount that other long term liabilities decreased in the current period. | | 53,741 |
|--|--|--------|

| | | |
|---|----|---------|
| Change in net assets of governmental activities | \$ | 417,177 |
|---|----|---------|

The accompanying notes are an integral part of this statement.

Exhibit 2-4

| | District of Columbia Budgetary Comparison Statement Year Ended September 30, 2004 (\$000s) | | | | | | | | | |
|---|---|--------------|------------------------------------|----------|-------------------|------------------------------------|-------------|---------|------------------------------------|------------------|
| | General Fund | | | | | Federal and Private Resources | | | | |
| | Budget | | Variance Positive (Negative) | Budget | | Variance Positive (Negative) | Budget | | Variance Positive (Negative) | Totals |
| | Original | Revised | | Original | Revised | | Original | Revised | | |
| Revenues and Sources: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property taxes | \$ | 976,837 | \$ 1,027,976 | \$ | 51,139 | \$ | \$ | \$ | \$ | \$ |
| Sales and use taxes | | 737,309 | (19,116) | | | | | | | |
| Income and franchise taxes | | 1,207,694 | 91,315 | | | | | | | |
| Other taxes | | 600,901 | 70,640 | | | | | | | |
| Total taxes | | 3,473,372 | 3,665,195 | | | | | | | |
| Licenses and permits | | 62,075 | 61,505 | | | | | | | |
| Fines and forfeits | | 86,299 | 99,478 | | | | | | | |
| Charges for services | | 50,953 | 53,705 | | | | | | | |
| Miscellaneous | | 87,345 | 109,011 | | | | | | | |
| Other sources | | 172,506 | 240,253 | | | | | | | |
| Federal contributions | | - | - | | 85,094 | | | | | |
| Operating grant | | - | 794 | | 1,561,929 | | | | | |
| Fund balance released from restrictions | | 149,093 | 129,128 | | 32,472 | | | | | |
| Interfund transfer | | 70,200 | 73,500 | | - | | | | | |
| Total revenues and other sources | | 4,059,672 | 4,432,453 | | 1,647,023 | | 2,070,763 | | 1,769,572 | (301,191) |
| Expenditures and Other Uses: | | | | | | | | | | |
| Governmental direction and support | | 226,975 | 231,364 | | 50,235 | | 210,176 | | 67,347 | 142,829 |
| Economic development and regulation | | 185,445 | 189,275 | | 91,201 | | 161,199 | | 90,769 | 70,430 |
| Public safety and justice | | 735,659 | 764,186 | | 12,088 | | 27,918 | | 22,994 | 4,924 |
| Public education system | | 970,581 | 979,362 | | 197,648 | | 242,171 | | 198,124 | 44,047 |
| Public school AYO's expenditure | | - | 53,198 | | - | | - | | - | - |
| Human support services | | 1,109,607 | 1,132,128 | | 1,271,192 | | 1,389,944 | | 1,347,795 | 42,149 |
| Public works | | 321,772 | 322,423 | | 13,724 | | 29,066 | | 11,579 | 17,487 |
| Emergency planning and security costs | | - | - | | 10,935 | | 10,289 | | 10,289 | - |
| Workforce investments | | 22,308 | 1,240 | | - | | - | | 22,308 | 1,240 |
| Wilson building | | 3,704 | 3,518 | | - | | - | | 3,704 | 3,518 |
| Repay bonds and interest | | 311,504 | 303,397 | | - | | - | | 311,504 | 303,397 |
| Interest on short term borrowing | | 3,000 | 2,904 | | - | | - | | 3,000 | 2,904 |
| Certificates of participation | | 4,911 | 4,752 | | - | | - | | 4,911 | 4,752 |
| Settlements and judgments fund | | 22,522 | 21,922 | | - | | - | | 22,522 | 21,922 |
| One-time expenditures | | 11,267 | 1,107 | | - | | - | | 11,267 | 1,107 |
| Tax increment financing | | 1,940 | 1,940 | | - | | - | | 1,940 | 1,940 |
| Grant disallowance | | 57,000 | 65,896 | | - | | - | | 57,000 | 65,896 |
| Cash reserve | | 50,000 | 302 | | - | | - | | 50,000 | 302 |
| Non-departmental agency | | 19,639 | 4,548 | | - | | - | | 19,639 | 4,548 |
| Total expenditures and other uses | | 4,057,834 | 4,099,185 | | 1,647,023 | | 2,070,763 | | 1,748,897 | 321,866 |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES -- BUDGETARY BASIS | | 1,838 | \$ 66,268 | | \$ 444,379 | | \$ - | | \$ 20,675 | \$ 20,675 |
| Reconcile Budgetary Basis to GAAP Basis: | | | | | | | | | | |
| Inventory | | | (3,148) | | | | | | 1,184 | |
| Proceeds from debt restructuring | | | 9,557 | | | | | | - | |
| Accounts receivable allowance | | | 5,371 | | | | | | - | |
| Operating cost from enterprise funds | | | (11,068) | | | | | | - | |
| Fund balance released from restrictions | | | (129,128) | | | | | | (32,472) | |
| All other, net | | | 1,695 | | | | | | - | |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES -- GAAP BASIS | | | \$ 317,658 | | | | | | \$ (10,613) | |
| Total | | 1,838 | \$ 66,268 | | \$ 444,379 | | \$ - | | \$ 20,675 | \$ 20,675 |
| Reconcile Budgetary Basis to GAAP Basis: | | | | | | | | | | |
| Inventory | | | (3,148) | | | | | | 1,184 | |
| Proceeds from debt restructuring | | | 9,557 | | | | | | - | |
| Accounts receivable allowance | | | 5,371 | | | | | | - | |
| Operating cost from enterprise funds | | | (11,068) | | | | | | - | |
| Fund balance released from restrictions | | | (129,128) | | | | | | (32,472) | |
| All other, net | | | 1,695 | | | | | | - | |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES -- GAAP BASIS | | | \$ 317,658 | | | | | | \$ (10,613) | |

The accompanying notes are an integral part of this statement

Exhibit 3-a

**District of Columbia
Statement of Net Assets
Proprietary Funds
September 30, 2004
(With Comparative Totals at September 30, 2003)
(S000s)**

| | Lottery and Games | Unemployment Compensation | Nonmajor Proprietary Funds | Totals | |
|---|------------------------------|--------------------------------------|---|-------------------|-------------------|
| | | | | 2004 | 2003 |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents (unrestricted) | \$ 9,701 | \$ - | \$ 14,891 | \$ 24,592 | \$ 23,720 |
| Investments (unrestricted) | - | - | 12,074 | 12,074 | - |
| Due from federal government | - | 6,612 | 366 | 6,978 | 6,828 |
| Accounts receivable, net | 4,362 | 18,658 | 6,758 | 29,778 | 23,134 |
| Due from other funds | - | 1,551 | - | 1,551 | - |
| Inventories | 485 | - | - | 485 | 647 |
| Other current assets | 14 | - | 457 | 471 | 14,745 |
| Cash and cash equivalents (restricted) | - | 321,697 | - | 321,697 | 297,563 |
| Total current assets | 14,562 | 348,518 | 34,546 | 397,626 | 366,637 |
| Investments (restricted) | 66,481 | - | - | 66,481 | 73,537 |
| Capital assets, net | 1,030 | - | 16,897 | 17,927 | 4,032 |
| Other | - | - | 22 | 22 | - |
| Total noncurrent assets | 67,511 | - | 16,919 | 84,430 | 77,569 |
| Total assets | 82,073 | 348,518 | 51,465 | 482,056 | 444,206 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Accounts payable | 2,950 | 26,759 | 1,238 | 30,947 | 33,148 |
| Accrued compensated absences | 894 | - | 701 | 1,595 | 1,861 |
| Due to other funds | - | 27,268 | - | 27,268 | 24,529 |
| Deferred revenue | 306 | - | - | 306 | 271 |
| Accrued liabilities | 7,866 | - | 709 | 8,575 | 8,749 |
| Other current liabilities | - | 15 | - | 15 | 1,167 |
| Total current liabilities | 12,016 | 54,042 | 2,648 | 68,706 | 69,725 |
| Noncurrent liabilities | | | | | |
| Due within one year | 8,631 | - | - | 8,631 | 8,631 |
| Due in more than one year | 57,850 | - | - | 57,850 | 64,906 |
| Total noncurrent liabilities | 66,481 | - | - | 66,481 | 73,537 |
| Total liabilities | 78,497 | 54,042 | 2,648 | 135,187 | 143,262 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 1,030 | - | 16,897 | 17,927 | 4,032 |
| Restricted - expendable | - | 294,476 | - | 294,476 | 262,148 |
| Unrestricted | 2,546 | - | 31,920 | 34,466 | 34,764 |
| Total net assets | \$ 3,576 | \$ 294,476 | \$ 48,817 | \$ 346,869 | \$ 300,944 |

The accompanying notes are an integral part of this statement.

Exhibit 3-b

District of Columbia
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2004
(With Comparative Totals for the Year Ended September 30, 2003)
(\$000s)

| | Lottery and Games | Unemployment Compensation | Nonmajor Proprietary Funds | Totals | |
|--|----------------------|------------------------------|----------------------------------|-------------------|-------------------|
| | | | | 2004 | 2003 |
| Operating revenues: | | | | | |
| Employer taxes | \$ - | \$ 103,448 | \$ - | \$ 103,448 | \$ 82,626 |
| Charges for services | 241,133 | - | 30,544 | 271,677 | 272,014 |
| Benefit contributions | | | | | |
| Benefit contributions | - | 11,168 | - | 11,168 | 24,885 |
| Miscellaneous | - | - | 250 | 250 | 261 |
| Total operating revenues | <u>241,133</u> | <u>114,616</u> | <u>30,794</u> | <u>386,543</u> | <u>379,786</u> |
| Operating expenses: | | | | | |
| Benefits | - | 113,888 | - | 113,888 | 165,045 |
| Prizes | 137,326 | - | - | 137,326 | 138,256 |
| Personnel services | 10,281 | - | 5,700 | 15,981 | 15,587 |
| Contractual services | 14,342 | - | - | 14,342 | 12,676 |
| Depreciation | 406 | - | 1,998 | 2,404 | 848 |
| Miscellaneous | 5,583 | - | 25,325 | 30,908 | 33,505 |
| Total operating expenses | <u>167,938</u> | <u>113,888</u> | <u>33,023</u> | <u>314,849</u> | <u>365,917</u> |
| Operating income (loss) | <u>73,195</u> | <u>728</u> | <u>(2,229)</u> | <u>71,694</u> | <u>13,869</u> |
| Nonoperating revenues: | | | | | |
| Interest and investment revenue | 319 | 16,180 | 348 | 16,847 | 19,332 |
| Intergovernmental | - | 15,420 | - | 15,420 | 30,471 |
| Total nonoperating revenue | <u>319</u> | <u>31,600</u> | <u>348</u> | <u>32,267</u> | <u>49,803</u> |
| Income (loss) before capital contribution and transfers | <u>73,514</u> | <u>32,328</u> | <u>(1,881)</u> | <u>103,961</u> | <u>63,672</u> |
| Capital contributions | - | - | 15,464 | 15,464 | - |
| Transfers in | - | - | - | - | 34,476 |
| Transfers out | (73,500) | - | - | (73,500) | (72,050) |
| Change in net assets | <u>14</u> | <u>32,328</u> | <u>13,583</u> | <u>45,925</u> | <u>26,098</u> |
| Total net assets at October 1 | 3,562 | 262,148 | 35,234 | 300,944 | 274,846 |
| Total net assets at September 30 | <u>\$ 3,576</u> | <u>\$ 294,476</u> | <u>\$ 48,817</u> | <u>\$ 346,869</u> | <u>\$ 300,944</u> |

The accompanying notes are an integral part of this statement.

Exhibit 3-c

District of Columbia
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2004
(With Comparative Totals for the Year Ended September 30, 2003)
(\$000s)

| | Lottery and Games | Unemployment Compensation | Nonmajor Proprietary Funds | Totals | |
|---|------------------------------|--------------------------------------|---|-------------------|-------------------|
| | | | | 2004 | 2003 |
| Operating Activities: | | | | | |
| Cash receipts from customers/employers | \$ 239,520 | \$ 108,462 | \$ 16,293 | \$ 364,275 | \$ 383,064 |
| Other cash receipts | 506 | - | 161 | 667 | 655 |
| Cash payments to vendors | (23,070) | - | (10,604) | (33,674) | (62,760) |
| Cash payments to employees/claimants | (6,826) | (115,928) | (5,927) | (128,681) | (171,417) |
| Other cash payments, including prizes | (137,783) | - | 58 | (137,725) | (137,311) |
| Net cash provided by (used in) operating activities | <u>72,347</u> | <u>(7,466)</u> | <u>(19)</u> | <u>64,862</u> | <u>12,231</u> |
| Noncapital Financing Activities: | | | | | |
| Intergovernmental grants | - | 15,420 | - | 15,420 | 30,471 |
| Interfund transfers out | (73,500) | - | - | (73,500) | (72,050) |
| Net cash provided by (used for) noncapital financing activities | <u>(73,500)</u> | <u>15,420</u> | <u>-</u> | <u>(58,080)</u> | <u>(41,579)</u> |
| Capital and Related Financing Activities: | | | | | |
| Acquisitions of capital assets | (82) | - | (754) | (836) | (1,095) |
| Net cash provided by (used for) capital and related financing activities | <u>(82)</u> | <u>-</u> | <u>(754)</u> | <u>(836)</u> | <u>(1,095)</u> |
| Investing Activities: | | | | | |
| Receipts of interest and dividends | 319 | 16,180 | 348 | 16,847 | 20,725 |
| (Purchases)/sales of investments | - | - | 2,213 | 2,213 | - |
| Net cash provided by (used for) in investing activities | <u>319</u> | <u>16,180</u> | <u>2,561</u> | <u>19,060</u> | <u>20,725</u> |
| INCREASE (DECREASE) IN CASH | (916) | 24,134 | 1,788 | 25,006 | (9,718) |
| Cash and cash equivalents at October 1 | <u>10,617</u> | <u>297,563</u> | <u>13,103</u> | <u>321,283</u> | <u>331,001</u> |
| Cash and cash equivalents at September 30 | <u>\$ 9,701</u> | <u>\$ 321,697</u> | <u>\$ 14,891</u> | <u>\$ 346,289</u> | <u>\$ 321,283</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (used for) Operating Activities: | | | | | |
| Operating income (loss) | \$ 73,195 | \$ 728 | \$ (2,229) | \$ 71,694 | \$ 13,869 |
| Depreciation | 406 | - | 1,998 | 2,404 | 1,489 |
| Miscellaneous nonoperating revenues | - | - | 36 | 36 | 63 |
| Decrease (increase) in assets: | | | | | |
| Accounts receivable | (1,141) | (6,154) | 529 | (6,766) | 2,669 |
| Inventories | 162 | - | - | 162 | 36 |
| Other current assets | (2) | - | (234) | (236) | (196) |
| Increase (decrease) in liabilities: | | | | | |
| Accounts payable | 198 | (889) | 105 | (586) | (7,276) |
| Accrued liabilities | (79) | - | 57 | (22) | 736 |
| Deferred revenue | 35 | - | - | 35 | 140 |
| Other current liabilities | (427) | (1,151) | (281) | (1,859) | 701 |
| Net Cash Provided by (used for) Operating Activities: | <u>\$ 72,347</u> | <u>\$ (7,466)</u> | <u>\$ (19)</u> | <u>\$ 64,862</u> | <u>\$ 12,231</u> |
| Noncash Investing, Capital, and Financing Activities: | | | | | |
| Contributions of capital assets | <u>\$ -</u> | <u>-</u> | <u>15,464</u> | <u>15,464</u> | <u>-</u> |

The accompanying notes are an integral part of this statement.

Exhibit 4-a

District of Columbia
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2004
(\$000s)

| | Pension Trust Funds | Private Purpose Trust Fund | Agency Funds |
|---|------------------------|-------------------------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents - restricted | \$ 290,768 | \$ - | \$ 115,870 |
| Investments - restricted | | | - |
| Equities | 1,625,072 | 31,194 | |
| Fixed income securities | 712,741 | - | |
| Cash collateral for securities lending transactions | 321,697 | - | - |
| Interest and dividends receivables | - | 18 | - |
| Accounts receivable | - | 8 | - |
| Benefit contribution receivables | 1,564 | - | - |
| Due from other funds | - | - | 1,401 |
| Other receivables | 1,816 | - | 1,087 |
| Total assets | <u>2,953,658</u> | <u>31,220</u> | <u>118,358</u> |
| LIABILITIES | | | |
| Accounts payable | 17,946 | 12 | 10,124 |
| Securities lending collateral | 321,697 | - | - |
| Due to other fund | 700 | - | - |
| Other current liabilities | - | 4 | 108,234 |
| Total liabilities | <u>340,343</u> | <u>16</u> | <u>\$ 118,358</u> |
| NET ASSETS | | | |
| Restricted for pension benefits and other purposes | <u>\$ 2,613,315</u> | <u>\$ 31,204</u> | |

The accompanying notes are an integral part of this statement.

Exhibit 4-b

District of Columbia
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2004
(\$000s)

| | Pension Trust Funds | Private Purpose Trust Fund |
|---|------------------------------------|---|
| ADDITIONS | | |
| Contributions: | | |
| Employer | \$ 96,700 | \$ - |
| Plan members | 47,130 | 17,847 |
| Total contributions | <u>143,830</u> | <u>17,847</u> |
| Investment earnings: | | |
| Net increase in fair value of investments | 210,263 | 859 |
| Interest and dividends | 67,276 | 529 |
| Total investment earnings | 277,539 | 1,388 |
| Less - investment expenses | <u>(9,275)</u> | <u>(160)</u> |
| Net investment earnings | 268,264 | 1,228 |
| Total additions | <u>412,094</u> | <u>19,075</u> |
| DEDUCTIONS | | |
| Benefits | 16,503 | - |
| Administrative expenses | 2,479 | 48 |
| Distributions to participants | - | 1,595 |
| Total deductions | <u>18,982</u> | <u>1,643</u> |
| Change in net assets | 393,112 | 17,432 |
| Net assets at October 1 | <u>2,220,203</u> | <u>13,772</u> |
| Net assets at September 30 | <u><u>\$ 2,613,315</u></u> | <u><u>\$ 31,204</u></u> |

The accompanying notes are an integral part of this statement.

Exhibit 5-a

District of Columbia
Discretely Presented Component Units
Combining Statement of Net Assets
September 30, 2004
(With Comparative Totals at September 30, 2003)
(\$000s)

| | Water and Sewer | Convention Center | Sports Commission | Housing Finance | University | Totals | |
|---|--------------------|----------------------|----------------------|--------------------|------------------|---------------------|---------------------|
| | | | | | | 2004 | 2003 |
| ASSETS | | | | | | | |
| Current Assets: | | | | | | | |
| Cash and cash equivalents (unrestricted) | \$ 48,405 | \$ 2,002 | \$ 890 | \$ 16,773 | \$ 16,408 | \$ 84,478 | \$ 170,024 |
| Investments (unrestricted) | 99,747 | 3,572 | 1,346 | - | - | 104,665 | 21,807 |
| Receivables, net: | | | | | | | |
| Accounts | 41,497 | 979 | 908 | - | 4,808 | 48,192 | 51,270 |
| Other | 20,907 | 299 | - | 300 | 38 | 21,544 | 34,506 |
| Due from federal government | 24,888 | - | - | - | 2,005 | 26,893 | 43,614 |
| Due from primary government | 19,180 | 5,735 | - | - | 3,294 | 28,209 | 24,962 |
| Inventories | 6,984 | - | - | - | - | 6,984 | 6,913 |
| Other current assets | 296 | - | 153 | - | 165 | 614 | 407 |
| Restricted cash | 281,213 | 3,035 | - | 11,273 | - | 295,521 | 62,028 |
| Restricted investments | 44,818 | 63,922 | 4,990 | 607,133 | 27,899 | 748,762 | 767,305 |
| Total current assets | <u>587,935</u> | <u>79,544</u> | <u>8,287</u> | <u>635,479</u> | <u>54,617</u> | <u>1,365,862</u> | <u>1,182,836</u> |
| Noncurrent assets: | | | | | | | |
| Loans receivable | - | - | - | 348,502 | 372 | 348,874 | 431,497 |
| Deferred charges | 30,169 | 8,545 | - | 14,817 | - | 53,531 | 57,883 |
| Other | - | - | - | 4,151 | - | 4,151 | 11,426 |
| Total long term assets | <u>30,169</u> | <u>8,545</u> | <u>-</u> | <u>367,470</u> | <u>372</u> | <u>406,556</u> | <u>500,806</u> |
| Capital assets, net | | | | | | | |
| Property and equipment | 1,297,715 | 783,453 | 10,786 | 2,317 | 55,998 | 2,150,269 | 2,152,730 |
| Non-depreciable capital assets | 552,898 | 7,510 | 557 | 573 | 7,532 | 569,070 | 384,234 |
| Total assets | <u>2,468,717</u> | <u>879,052</u> | <u>19,630</u> | <u>1,005,839</u> | <u>118,519</u> | <u>4,491,757</u> | <u>4,220,606</u> |
| LIABILITIES | | | | | | | |
| Current Liabilities: | | | | | | | |
| Payables: | | | | | | | |
| Accounts | 77,225 | 38,616 | 776 | 1,438 | 6,840 | 124,895 | 143,150 |
| Compensation | 9,042 | 1,229 | 249 | 232 | - | 10,752 | 9,546 |
| Due to primary government | 12,610 | - | 762 | - | - | 13,372 | 957 |
| Accrued liabilities | 19,495 | 12,747 | 252 | 31,384 | 19,344 | 83,222 | 102,207 |
| Deferred revenue | 28,052 | 7,004 | 222 | 1,881 | 4,369 | 41,528 | 39,660 |
| Current maturities | 16,134 | 10,685 | - | 10,660 | - | 37,479 | 37,827 |
| Other current liabilities | - | 1,051 | - | 9,086 | - | 10,137 | 17,019 |
| Total current liabilities | <u>162,558</u> | <u>71,332</u> | <u>2,261</u> | <u>54,681</u> | <u>30,553</u> | <u>321,385</u> | <u>350,366</u> |
| Noncurrent Liabilities: | | | | | | | |
| Long term debt: | | | | | | | |
| Bonds payable | 785,111 | 497,952 | - | 863,088 | - | 2,146,151 | 1,927,077 |
| Other long-term liabilities | 15,802 | 12,331 | - | 2,218 | - | 30,351 | 61,484 |
| Refundable advances | - | - | - | - | 463 | 463 | 681 |
| Deferred revenue | 672,538 | - | - | - | - | 672,538 | 583,375 |
| Total long term liabilities | <u>1,473,451</u> | <u>510,283</u> | <u>-</u> | <u>865,306</u> | <u>463</u> | <u>2,849,503</u> | <u>2,572,617</u> |
| Total liabilities | <u>1,636,009</u> | <u>581,615</u> | <u>2,261</u> | <u>919,987</u> | <u>31,016</u> | <u>3,170,888</u> | <u>2,922,983</u> |
| NET ASSETS | | | | | | | |
| Invested in capital assets, net of related debt | 622,515 | 222,744 | 11,343 | (4,604) | 50,206 | 902,204 | 949,133 |
| Restricted - expendable | 39,117 | 66,957 | 4,990 | 59,775 | 313 | 171,152 | 166,721 |
| Restricted - nonexpendable | - | - | - | - | 7,242 | 7,242 | 7,242 |
| Unrestricted | 171,076 | 7,736 | 1,036 | 30,681 | 29,742 | 240,271 | 174,527 |
| Total net assets | <u>\$ 832,708</u> | <u>\$ 297,437</u> | <u>\$ 17,369</u> | <u>\$ 85,852</u> | <u>\$ 87,503</u> | <u>\$ 1,320,869</u> | <u>\$ 1,297,623</u> |

The accompanying notes are an integral part of this statement.

Exhibit 5-b

District of Columbia
Discretely Presented Component Units
Combining Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2004
(With Comparative Totals for the Year Ended September 30, 2003)
(\$000s)

| | Water and Sewer | Convention Center | Sports Commission | Housing Finance | Univer- sity | Totals | |
|--|--------------------|----------------------|----------------------|--------------------|-----------------|--------------|--------------|
| | | | | | | 2004 | 2003 |
| Operating Revenues: | | | | | | | |
| Charges for services: | | | | | | | |
| Public | \$ 159,165 | \$ 12,441 | \$ 6,255 | \$ 53,636 | \$ 14,249 | \$ 245,746 | \$ 297,542 |
| Intergovernmental | 102,742 | - | - | - | - | 102,742 | 42,956 |
| Federal & local grants & contributions | - | - | - | - | 23,741 | 23,741 | 20,538 |
| Miscellaneous | 2,427 | 395 | - | 13,340 | 4,430 | 20,592 | 14,517 |
| Total operating revenues | 264,334 | 12,836 | 6,255 | 66,976 | 42,420 | 392,821 | 375,553 |
| Operating Expenses: | | | | | | | |
| Personnel services | 62,449 | 13,016 | 3,027 | 3,381 | 61,784 | 143,657 | 144,240 |
| Contractual services | 65,446 | 11,532 | 3,297 | 3,809 | 13,675 | 97,759 | 96,765 |
| Supplies | 17,384 | 787 | 219 | - | 5,646 | 24,036 | 20,687 |
| Occupancy | 22,217 | 4,391 | 663 | 5,064 | 3,314 | 35,649 | 35,114 |
| Scholarships | - | - | - | - | 7,678 | 7,678 | 7,045 |
| Depreciation | 40,500 | 29,165 | 1,866 | 267 | 4,284 | 76,082 | 60,734 |
| Miscellaneous | 20,692 | 1,081 | 647 | 21,025 | - | 43,445 | 34,719 |
| Total operating expenses | 228,688 | 59,972 | 9,719 | 33,546 | 96,381 | 428,306 | 399,304 |
| OPERATING INCOME (LOSS) | 35,646 | (47,136) | (3,464) | 33,430 | (53,961) | (35,485) | (23,751) |
| Nonoperating Revenues: | | | | | | | |
| Intergovernmental | - | 62,200 | - | - | 50,861 | 113,061 | 109,449 |
| Interest revenue | 3,472 | 2,037 | 85 | 7,962 | 2,417 | 15,973 | 15,250 |
| Other revenue | - | - | - | - | 815 | 815 | 715 |
| Total nonoperating revenue | 3,472 | 64,237 | 85 | 7,962 | 54,093 | 129,849 | 125,414 |
| Nonoperating Expenses: | | | | | | | |
| Interest expense | 26,060 | 26,080 | - | 34,555 | - | 86,695 | 67,969 |
| Other expenses | 15,778 | 6,914 | - | 1,198 | - | 23,890 | 22,765 |
| Total nonoperating expense | 41,838 | 32,994 | - | 35,753 | - | 110,585 | 90,734 |
| Total nonoperating revenues (expenses) | (38,366) | 31,243 | 85 | (27,791) | 54,093 | 19,264 | 34,680 |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (2,720) | (15,893) | (3,379) | 5,639 | 132 | (16,221) | 10,929 |
| Capital contributions | 31,455 | - | - | - | 8,012 | 39,467 | 49,525 |
| Total contributions | 31,455 | - | - | - | 8,012 | 39,467 | 49,525 |
| Change in net assets | 28,735 | (15,893) | (3,379) | 5,639 | 8,144 | 23,246 | 60,454 |
| Net assets | | | | | | | |
| at October 1 | 803,973 | 313,330 | 20,748 | 80,213 | 79,359 | 1,297,623 | 1,237,169 |
| Net assets | | | | | | | |
| at September 30 | \$ 832,708 | \$ 297,437 | \$ 17,369 | \$ 85,852 | \$ 87,503 | \$ 1,320,869 | \$ 1,297,623 |

The accompanying notes are an integral part of this statement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (District) was created on March 30, 1791 and became the Nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress to establish the seat of government for the United States. On January 2, 1975, Congress granted the District a Home Rule Charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198.

The District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a budget request act, becomes a law unless Congress and the President disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected nonvoting delegate to the United States House of Representatives.

Due to its unique organizational structure (i.e., not a part of any other state government), the District provides a broad range of services to its residents, including those normally provided by a state. These services include public safety and protection, fire and emergency medical services, human support and welfare services, public education and many others.

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. The primary government is the District of Columbia, including all of the agencies that make up its legal entity. Criteria to be considered in determining organizations to be included as component units within the District's reporting entity are as follows:

- The District holds the corporate powers of the organization.

- The District appoints a voting majority of the organization's board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial burden on, or provide financial benefit to the District.
- The organization is fiscally dependent on the District.
- It would be misleading to exclude the organization from the District's financial statements.

Based on the aforementioned criteria, the District's financial statements include five discretely presented component units: Water and Sewer Authority, Washington Convention Center, Sports and Entertainment Commission, Housing Finance Agency, and the University of the District of Columbia. These organizations are presented in a separate column to emphasize that they are legally separate from the District.

The Mayor, with the consent of the Council, and other District officials appoint the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Washington Convention Center and the Sports and Entertainment Commission, and certain tax revenues are dedicated to these organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt issued before that entity's creation to finance capital improvements for its predecessor agency. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia. Information on how to obtain a complete set of financial statements for each entity can be obtained at the following locations:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Convention Center Authority
 General Manager
 801 Mount Vernon Place, N.W.
 Washington, D. C. 20001

Housing Finance Agency
 Executive Director
 815 Florida Avenue, N.W.
 Washington, D. C. 20001

Sports and Entertainment Commission
 General Manager
 2001 East Capitol Street, S.E.
 Washington, D. C. 20003

University of the District of Columbia
 President
 Van Ness Campus
 4200 Connecticut Avenue, N.W.
 Washington, D. C. 20008

Water and Sewer Authority
 General Manager
 5000 Overlook Avenue, S.W.
 Washington, D. C. 20032

The District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District, and the District appoints all members of the governing body of the Corporation. The members have the ability to modify or approve the budget of the organization, appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization, and thus the District is able to impose its will. Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer, 1350 Pennsylvania Avenue, N.W. Suite 209, Washington, D.C. 20004.

C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is accountable but not *financially accountable*. The District of Columbia Housing Authority, the National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations because the District is not financially accountable for them. Although the Mayor appoints a voting majority of the governing boards of these organizations (except for the Courts), the District's accountability for each organizations does not extend beyond such appointments. The Mayor does not appoint the members of the Courts' Joint Committee on Judicial Administration, however the Courts are considered a related organization because it provides the judicial services normally associated with municipal and state governments for the District.

D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, composed of two Directors and two alternates each from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. Further information regarding this joint venture is discussed in Note 11.

E. BASIS OF PRESENTATION

Government-Wide Financial Statements – The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements. Governmental activities of the primary government, which normally are supported by taxes and intergovernmental revenues, are reported separately from

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

business-type activities, which rely to a significant extent on fees and charges for support. The following two statements are included in the government-wide statements:

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and its discretely presented component units. The District reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets. The net assets of a government is broken down into these three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- *Statement of Activities* – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include fines and forfeitures, charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District reports depreciation expense, the cost of “using up” capital assets in the Statement of Activities.

Fund Financial Statements - Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. Each fund is considered to be a separate accounting entity and the transactions in each are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses/expenditures.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds are used to account for all of the District's general activities. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Funds and the discretely presented component units) are accounted for in the Governmental Funds. The District reports the following major

governmental funds:

- *General Fund*, used to account for all financial resources not accounted for in other funds.
- *Federal and Private Resources Fund*, used to account for proceeds of intergovernmental grants and other federal payments and private grants that are legally restricted to expenditure for specified purposes.
- *General Capital Improvements Fund*, used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt.
- *Non-Major Governmental Funds* includes two Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund and (2) Tobacco Settlement Financing Corporation (TSFC) Fund; and one Capital Projects Fund: Highway Trust Fund.

Proprietary Funds are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are, financed or recovered primarily through user charges, and the determination of net income is necessary or useful to sound financial administration. The District has two major proprietary funds, which are discussed below:

- *Lottery and Games Fund* - Used to account for revenues from lotteries and daily numbers games operated by the District and from licenses to conduct bingo games and raffles, and related prizes, expenses and capital outlays. Gaming activities are administered by a Lottery and Charitable Games Control Board consisting of five members appointed by the Mayor with the consent of the Council.
- *Unemployment Compensation Fund* - Used to account for the accumulation of resources to be used for benefit payments to unemployed former employees of the District and federal government and of private employers in the District. Resources are contributed by private employers at rates fixed by law, and by the District and federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.
- *Non-Major Proprietary Fund* - Used to account for the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center.

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

individuals, private organizations and other governments. The District reports the following fiduciary funds:

- *Pension Trust Funds* report the activities of the District's retirement system, which accumulates resources for pension benefit payments to qualified District's employees.
- *Private Purpose Trust Funds* are used to report any trust arrangement not reported in pension trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code) The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide.
- *Agency Funds* report those resources held by the District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Fiduciary funds are not included in the government-wide financial statements since the resources cannot be used for operations of the government.

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

Measurement Focus

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, pension and private purpose trust funds, discretely presented component units, and the government-wide financial statements are accounted for

on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Net assets of the government-wide and proprietary funds are segregated into capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The District also has the option of following private-sector guidance issued after November 30, 1989 for its business-type activities and proprietary funds and component units. As allowed by GASB Statement No. 20, the District has elected to follow only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB), issued prior to December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles applicable to governmental entities (GAAP) as established by GASB.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available.) "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. GASB Interpretation No. 6 (GASBI 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. Such activity is recorded in the government-wide financial statements as incurred.

Those revenues susceptible to accrual are taxes, federal contributions and grants, charges for services and investment income. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. On these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as an enforceable lien on property as of October 1 of the year after levy. Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned. Charges for services are recorded as revenues as services are provided.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable situs in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider's resources that is enforceable through the eventual seizure of the property until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these revenues are comprised of contributions and grants made by the Federal government to the District. Contributions are recognized as revenue when received. Generally, entitlements and shared revenues are recognized as revenue when received or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received before all eligibility requirements are met are recorded as

deferred revenue.

Licenses and permits, fines and forfeitures are not considered susceptible to accrual because they are not both measurable and available to finance expenditures of the current period. Licenses and permits and fines and forfeitures are recorded as revenue when received in cash because they are generally not measurable until received. The government-wide financial statements, proprietary funds, and pension and private purpose trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust funds recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment for payment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The private purpose trust fund recognizes additions to net assets when participants' contributions are received.

Food Stamps

The District participates in the federal government's food stamp program, which is designed to increase the food purchasing power of economically disadvantaged residents. The District mainly uses the Electronic Benefits Transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Thus, revenues and expenditures are reported in the federal and private resources fund when the underlying transaction (the food purchase) occurs.

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

About March 15 of each year, the Mayor submits to the Council an all sources budget for the General Fund, for the fiscal year commencing the following October 1. The Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing uses exceed revenues and other financing sources. A project-length financial plan is adopted for the General Capital Improvements Fund. About June 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. Early in June of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget and the authorized Federal payment in-lieu-of taxes through passage of an appropriation law.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Appropriations Act

The legally adopted budget is the annual appropriation public law (Appropriations Act) enacted by Congress and signed by the President. The Appropriations Act authorizes expenditures at the function level or by appropriation title, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function. The District may request a revision to the appropriated expenditure amounts in the Appropriations Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Official Code 47-363(2001), as amended), the District may reallocate budget amounts within appropriation title. The appropriated budget amounts in the Budgetary Comparison Statement include all approved reallocations. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341, 1342, 1349, 1351) and the District of Columbia Anti-Deficiency Act (D.C. Official Code 47-355.01-355.08, 2001). Also, a violation of the D.C. Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation. There were no violations of these Acts as of September 30, 2004, although immaterial, technical violations of the D.C. Anti-Deficiency Act did occur during the year. These violations were cured by fiscal year-end.

The Appropriations Act specifies expenditures and net surplus or deficit of revenues. The Appropriations Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation. The Budgetary Comparison Statement shows Revenues and Other Sources as presented in the Conference Report (H.R. 108-401) and Expenditures and Other Uses as contained in the Appropriation Act (PL 108-199.)

By law, the budgetary general fund includes both the general fund and the federal and private resources fund presented in Exhibit 2-b. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP – basis general fund and federal and private resources fund due to other basis and entity differences, as follows:

- *Basis Differences* - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis.
- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis. Such activities primarily include the following as detailed on Exhibit 2-d:
 - Fund balance released from restrictions
 - Proceeds from debt restructuring
 - Accounts receivable allowance
 - Operating cost from enterprise funds

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget.

H. CASH AND INVESTMENTS

Cash

Cash from the governmental and proprietary funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The general fund reports a receivable from the overdrawn fund.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are effectively immune from changes in interest rates. The District's cash management pool is considered a cash equivalent. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Amendment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. At September 30, 2004 the District has invested primarily in investments backed by U.S. government agencies' securities, with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

I. NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2004, the District adopted a new accounting standard issued by the Governmental Accounting Standards Board (GASB) and implemented the guidance provided by GASB Technical Bulletin 2004-1.

- Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets and insurance recoveries. In accordance with this standard, a capital asset is considered impaired if there is a permanent, significant and unexpected decline in service utility. Adoption of this standard did not identify any impaired capital assets.
- Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, clarifies guidance for component unit determination for tobacco settlement authorities (TSAs) and for recognition of transactions resulting from the issuance of debt by TSAs that will be repaid by all or portion of the settling governments' future tobacco

settlement payments. The District established the Tobacco Corporation as a blended component unit, and recognizes revenues based on domestic tobacco shipments and the related annual payment in accordance with the Master Settlement Agreement. Compliance with this bulletin required a restatement of the Tobacco Corporation's beginning fund balance to accrue additional revenue related to tobacco shipments since the prior annual payment through each fiscal year-end. (See section W of this note).

J. RESTRICTED ASSETS

Certain governmental and proprietary funds, component unit, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets over liabilities payable from restricted assets is reported as part of the restricted net assets in the government-wide, proprietary, and fiduciary financial statements and as reserved fund balance in the governmental fund financial statements to indicate the portion of the net assets or fund balance that is available for restricted purposes, only. Restricted assets also represent cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal fees on long-term debt.

K. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for payments made by the District in the current year for services to be received in the subsequent fiscal year. Such advance payments are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related services are received.

In governmental funds, bond (discounts) premiums and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the government-wide financial statements, bond (discounts) premiums and issuance costs are capitalized and amortized as fiscal charges over the term of the related bonds.

L. RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District, including interest and penalties on delinquent taxes, which have not been collected, canceled or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable are amounts owed by customers for goods or services sold. Intergovernmental

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

receivables are amounts owed by other governments to the District.

Accounts payable are amounts owed to vendors for goods or services purchased and received. Intergovernmental payables are amounts owed to other governments.

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as (a) revenues and expense/expenditure transactions consisting of temporary interfund transactions which include reimbursements and quasi-external transactions or (b) reallocation of resources transactions including temporary interfund loans, advances or operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Short-term amounts owed between the primary government and a discretely presented component unit are classified as "Due to/from primary government" and "Due to/from component unit" on the statement of net assets.

Transfers are included in the results of operations of both the governmental and proprietary funds. Accordingly, transfers are reported in the "Other Financing Sources (Uses)" section of the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Transfers" section in the statement of revenues, expenses, and changes in net assets (proprietary funds).

N. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and land improvements (infrastructure) such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items, are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital assets are stated at cost when historical

records are available and at estimated historical cost when no historical records exist. Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated capital assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that does not add to the value of the assets or materially extend asset lives is not capitalized. Betterments are capitalized over the remaining useful lives of the related capital assets. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements.

Interest is capitalized in the government-wide financial statements for business-type activities and proprietary funds on assets constructed with long-term debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred on tax-exempt debt from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capitalization and Depreciation Policies

Assets capitalized have an original cost of \$5 or more per unit. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table 1** by category.

Table 1 – Estimated Useful Lives (by Asset Category)

| | Useful Life |
|---------------------------------|-------------|
| Sewer Lines | 30-45 years |
| Buildings | 50 years |
| Furniture, Fixtures & Equipment | 5-10 years |
| Vehicles | 5-10 years |
| Land Improvements | 30-45 years |

O. CAPITAL LEASES

Leased property having elements of ownership is recorded in the government-wide and proprietary fund financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in these financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**P. COMPENSATED ABSENCES****Benefit Accumulation Policies**

The District's policy allows employees to accumulate unused sick leave, with no maximum limitation. Vacation (annual) leave may be accumulated up to 240 hours, regardless of the employee's length of service, while there is no limit to the amount of compensatory in-lieu-of paid overtime that may be accumulated.

Accrual

The District records vacation as an expenditure and related liability in the governmental fund financial statements only to the extent that they have matured or come due for payment. Accumulated annual leave that has not matured by the end of the current fiscal year is reported in the government-wide financial statements. Accumulated annual leave of the proprietary funds and discretely presented component units is recorded as an expense and liability as the benefits accrue to employees.

The District does not record a liability for accumulating rights to receive sick pay benefits. At the time of retirement; however, unused sick leave is credited at the rate of 22 days for each month of service and is added to the retirees' years of service in the Civil Service Retirement System and in the District Retirement Program.

The employees of the District earn sick leave credits that are considered termination payments at time of retirement rather than be taken as absences due to illness or other contingencies. The District estimates the sick leave liability based on the sick leave accumulated at fiscal year end by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave is reported in the government-wide financial statements and in the proprietary funds.

Q. LONG-TERM LIABILITIES

Under the District of Columbia Home Rule Act, as amended, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the total local revenues of the then-current fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total local-source revenues (excluding

revenue and debt of the Water and Sewer Authority, pursuant to the Home Rule Act.)

General obligation bonds, revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds or discretely presented component units are included in the accounts of such funds. All other long-term indebtedness of the District, such as disability compensation, compensated absences, employee separation incentives and accreted interest liabilities, which have been incurred but not financed, are reported in the government-wide financial statements. Such obligations are to be paid through the District's general fund.

The District pays principal on its 1994B Capital Appreciation Bonds (CABs) annually. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging from 6.60 to 6.65%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

R. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as:

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category presents net assets subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.
- *Unrestricted Net Assets* - This category represents net assets of the District not restricted for any project or other purpose.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

It is the policy of the District to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The amount of fund balance that is available for future operations is presented as "unreserved." Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes or portions that are not appropriable for expenditure. Designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

As of September 30, 2004, the District had established the following reservations and designations (see **Table 26**):

Reservations

Reserve for Debt Service—Bond Escrow – This portion of fund balance represents that portion of investments held in escrow that are available for future debt service obligations or requirements.

Reserve for Emergency and Contingency Cash Reserve Fund – This portion of fund balance represents amounts that, in accordance with legislative mandate, are held in an emergency reserve fund, to be used for unanticipated and non-recurring, extraordinary needs of an emergency nature.

Reserve for Budget – This portion of fund balance represents unused FY 2004 Budget Reserve amounts that are available until expended.

Reserve for Long-Term Assets - This portion of fund balance represents those long-term assets that are not available for appropriation and expenditure.

Reserve for Inventory – This portion of fund balance represents that portion of inventories that is not available for appropriation and expenditure.

Reserve for Purpose Restrictions - This portion of fund balance represents resources from grants and other revenues with limitations on how the District that may expend the funds.

Reserve for Charter School Loans - This portion of fund balance is restricted for the purpose of providing start up costs for new charter schools.

Reserve for Tobacco Settlement (TSFC) - This portion of the District's fund balance represents the fund balance reserved for the purpose of paying future debt service and related expenses associated with TSFC's issuance of Tobacco Settlement Asset-Backed Bonds in FY 2001.

Reserve for Future Benefits - This portion of fund balance represents the portion of resources that is available for benefit payments from the Pension and Private Purpose Trust Funds.

Reserve for Highway Projects - This portion of fund balance is restricted for the purpose of executing federal highway projects.

Reserve for Workers' Compensation – This portion of fund balance is restricted for the purpose of paying restitution under Workers' Compensation Claims.

Reserve for Joint Venture Subsidies -- This portion of fund balance is restricted for the purpose of providing subsidies for the Washington Metropolitan Area Transit Authority (WMATA).

Reserve for Tax Increment Financing Program – This portion of fund balance is restricted for debt service on Tax Increment Financing Notes.

Designations

Designation for Other Post Employment Benefits -- This designation of unreserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

Designation for Paygo Capital -- This designation of unreserved fund balance is to supplement the District's bond financing activity, to the extent feasible, with resources from the general fund.

Designation for Other Special Purposes -- This designation of unreserved fund balance is for activities financed by fees and charges for services.

Designation for Subsequent Years Expenditure -- This designation of unreserved fund balance is for the purpose of meeting unforeseen subsequent years' obligations.

S. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, employees may receive post-retirement health care and life insurance benefits. As of September 30, 2004, there were 6,349 pre-87 (Civil Service) and 11,401 post-87 (DC Defined Contribution) employees who are eligible for

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government and the District has no liability for this cost. Employees hired after September 30, 1987, pursuant to the D.C. Code 1-622, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The District therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The District does not record a liability for its portion of the cost of post-retirement benefits but rather records such cost as expenses/expenditures when premiums are paid. The District has recognized \$438 for post-retirement health and life insurance premiums paid during fiscal year 2004, and as of September 30, 2004, there were 272 annuitants that received these benefits.

T. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

U. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**Explanation of certain differences between the governmental funds balance sheet and governmental activities on the government-wide statement of net assets**

The governmental funds balance sheet includes a reconciliation between fund balances - total governmental funds, and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that certain liabilities are not reported under the modified accrual accounting basis including deferred revenue, but are reported in the government-wide financial statements. The difference in deferred revenue of \$ 28,077 between the two statements is a reconciling item.

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and governmental activities on the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

The details of the \$337,178 difference related to capital outlay are as follows:

| | |
|----------------------------|-------------------|
| Capital outlay capitalized | \$ 532,599 |
| Less: Depreciation expense | (189,835) |
| Equipment additions | 23,960 |
| Loss on disposition | (29,546) |
| Net adjustment | <u>\$ 337,178</u> |

Deferred property tax revenues which were earned but whose current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. Such revenue decreased by (\$10,435) from fiscal year 2003 as a result of a change in the amount deferred in the governmental funds between 2003 and 2004.

The details of the \$(157,984) difference related to capital debt are as follows:

| | |
|--|---------------------|
| Bonds issued | \$ (325,726) |
| Equipment financing program | (20,822) |
| Capital lease proceeds | (503) |
| Less principal payments on long-term capital debt: | |
| Principal payments on bonds and notes | 152,086 |
| Principal payments on other capital debt | 25,575 |
| Fiscal charge | <u>11,406</u> |
| Net adjustment | <u>\$(157,984)</u> |

The details of the \$53,741 difference related to the change in accrued liabilities are as follows:

| | |
|---------------------------------|------------------|
| Annual leave | \$ 1,264 |
| Future disability benefits | (6,127) |
| Capital appreciation bond (CAB) | |
| interest accretion | (2,931) |
| Grant disallowances | 66,609 |
| Accrued interest | (590) |
| Claims and judgments | <u>(4,484)</u> |
| Net adjustment | <u>\$ 53,741</u> |

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**V. RECLASSIFICATIONS/COMPARATIVE DATA**

Certain fiscal year 2003 amounts have been reclassified to conform to the fiscal year 2004 presentation. Comparative total data for the prior year have been presented in order to provide an understanding of changes in the District's financial position.

W. RESTATEMENT

As a result of the adoption of Technical Bulletin 2004-1, the District restated the beginning fund balance of the Tobacco Corporation as follows:

Tobacco Corporation Fund Balance

| | |
|---|-------------------------|
| October 1, 2003, as previously reported | \$ 58,231 |
| Increase due to adoption of TB 2004-1 | <u>28,910</u> |
| October 1, 2003, as restated | <u>\$ 87,141</u> |

NOTE 2. CASH AND INVESTMENTS**A. CASH**

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operating efficiency and to maximize investment opportunities. Of \$1,714,368 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2004 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2004, the carrying amount of cash for the primary government was \$1,334,369 and the bank balance was \$826,872. The carrying amount of cash (deposits) for the component units was \$379,999 and the bank balance was \$380,522.

B. INVESTMENTS

District of Columbia laws authorize the Treasurer to invest funds in a manner that will provide preservation of principal and meet anticipated daily cash requirements of the District, while maximizing investment earnings. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. The District's current investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments, (other than those held by the Retirement Board) consisted primarily of money market funds and/or obligations backed by United States

government securities and agencies. The Retirement Board is authorized to invest in a variety of investments including fixed income, equity securities and other types of investments. As prescribed in D.C. Code 1-907.01 (2001 Ed), the Board may not invest in debt instruments of the District, the Commonwealth of Virginia or State of Maryland governments, political subdivisions thereof, or any entity subject to control by them; debt instruments fully guaranteed by those governments; real property in those jurisdictions; or debt instruments secured by real property in those jurisdictions.

The District and its discretely presented component units' investments are subject to interest rate, credit, custodial, and foreign currency risk as described below:

- *Interest Rate Risk* – This approach limits exposure to fair value losses arising from rising interest rates. During the fiscal year, the District's investments other than trust held by the Retirement Board were limited to U.S. government and agency securities and money market funds of less than 90 days. The Retirement Board's fixed income managers must construct and actively manage a portfolio of fixed income and related securities that maintains a weighted average duration within +/-2 years of the duration of the fixed income benchmark.
- *Credit Risk* - The District invests in obligations of the United States government and agencies securities, prime commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's, banker's acceptances, and repurchase agreements. During the fiscal year, the District's investments (other than those held by the Retirement Board) were limited to U.S. government and agency securities and money market funds of less than 90 days. For the

NOTE 2. CASH AND INVESTMENTS

Retirement Board, fixed income managers are permitted to invest in eligible long-term instruments rated investment grade (top four ratings) by nationally recognized rating organizations.

- *Custodial Risk* - Custodial risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial risk exposure during the fiscal year. The
- District collateralized all required investments during fiscal year 2004. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investment in the District's name.
- *Foreign Currency Risk* - As a general policy of the Retirement Board, the Board managers, with authority to invest in a portfolio consisting primarily of non-U.S. securities, structure optional currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

Table 2a – Investments by Type

| | <u>Total Carrying Value</u> | |
|--|-----------------------------|-------------------------|
| INVESTMENTS | | |
| Primary Government: | | |
| U. S. government securities | \$ | 458,304 |
| Repurchase agreements | | 18 |
| Corporate securities | | 5,794 |
| Pension trust funds investments held by Board's agent in Board's name: | | |
| Equities (of which \$83 is on securities loan with securities and other collateral) | | 1,476,208 |
| Fixed income securities (of which \$16,600 is on securities loan with securities and other collateral) | | 549,108 |
| | \$ | <u>2,489,432</u> |
| Mutual funds | | 588,244 |
| Pension trust funds investments held by broker-dealer under securities loans with cash collateral: | | |
| Equity securities | | 148,864 |
| Fixed income securities | | 163,633 |
| Securities lending collective investment pool | | 321,697 |
| Private purpose trust funds investments | | 31,194 |
| Total primary government | | <u>3,743,064</u> |
| Component Units: | | |
| U. S. government securities | | 366,884 |
| Repurchase agreements | | |
| Corporate securities | | 63,717 |
| Investment contracts | | 374,975 |
| Mutual funds | | 47,851 |
| Total component units | | <u>853,427</u> |
| Total reporting entity investments | \$ | <u><u>4,596,491</u></u> |
| CASH BALANCES | | |
| Primary government | \$ | 1,334,369 |
| Component units | | <u>379,999</u> |
| Total cash balances | \$ | <u><u>1,714,368</u></u> |

NOTE 2. CASH AND INVESTMENTS**Table 2b – Reconciliation of the District's deposit and investment balances**

| | | |
|--------------------------------|-----------|------------------|
| Total investments per Table 2a | \$ | 4,596,491 |
| Total cash balances | | 1,714,368 |
| Total | \$ | 6,310,859 |

| | Exhibit 1-a | Exhibit 4-a | Total |
|--|---------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 661,767 | \$ - | \$ 661,767 |
| Investments | 125,354 | - | 125,354 |
| Cash and cash equivalents (restricted) | 1,611,153 | 406,638 | 2,017,791 |
| Investments (restricted) | 815,243 | 2,690,704 | 3,505,947 |
| Total | \$ 3,213,517 | \$ 3,097,342 | \$ 6,310,859 |

Derivative Financial Instruments

In accordance with the policies of the Retirement Board and pursuant to D. C. Code Section 1-741(a)(2)(C), during 2004, the Pension Trust Funds held certain derivative investments to increase potential earnings or to hedge against potential losses. Derivative investments are defined as financial instruments, the values of which depend on or are derived from the value of an underlying asset, reference rate, or index. Derivative investments often contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgages. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

In fiscal year 2004, these derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed security contracts (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, and warrants.

The Pension Trust Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs,) mortgage-backed pools and securities, structured notes, stripped/zero coupon bonds, inflation index bonds, mortgage backed security forward contracts, foreign currency futures/forward contracts, and options primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher

credit and market risks. CMOs also offer higher potential yields than comparable duration U. S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset backed and mortgage backed pools and securities are managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

The Pension Trust Funds invest in structured notes with step-up coupons that offer higher yields than comparable U. S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates, which start at one rate and then step-up to higher rates on specific dates. The Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay an interest rate.

Foreign currency forward and futures contracts and foreign currency options are used by the Retirement Funds for defensive purposes. These contracts hedge a portion of the Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are expected. Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

NOTE 2. CASH AND INVESTMENTS

Exchange-traded and over-the-counter bond futures and options are used by the Retirement Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

The Pension Trust Funds also hold derivative investments indirectly by participating in pooled, commingled, mutual or short-term funds that hold derivatives. Information

regarding any risks associated with these holdings is not generally available.

At September 30, 2004, the Pension Trust Funds' portfolio included \$282,140 of derivative investments, or 9.6% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year.

Derivative investments by type at September 30, 2004 are shown in **Table 3**.

Table 3 – Derivative Investments by Type

| Derivative Instrument Type | |
|--|-------------------|
| Asset-backed securities | \$ 21,089 |
| Collateralized mortgage obligations | 15,495 |
| Mortgage -backed security pools and securities | 45,429 |
| Structured notes (including stripped securities) | 3,976 |
| Inflation index bonds | 20,282 |
| Mortgage -backed security forward contracts | 178,245 |
| Foreign currency futures/forward contracts, net | 565 |
| Options | (2,941) |
| Total Derivatives | \$ 282,140 |

C. SECURITIES LENDING

During the fiscal year 2004, the master custodian, at the direction of the Retirement Board, lent the Retirement Funds' equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit issued by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U.S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality Fund).

Because the Quality Fund does not meet the requirements of Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, the master custodian has valued the Fund's investments at fair value for reporting purposes.

The Quality Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Funds' position in the Quality Fund is not the same as the value of the Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality Fund and there was no income from one fund that was assigned to another fund by the master custodian during fiscal year 2004.

During fiscal year 2004, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2004.

NOTE 2. CASH AND INVESTMENTS

The Quality Fund invests qualified cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. Its average effective duration is restricted to 120 days or less. The average duration of the investment pool as of September 30, 2004 was 48 days. The maximum remaining effective maturity of any instrument is two years. The average weighted maturity of the investment pool as of September 30, 2004 was 141 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality Fund may invest in other investment vehicles managed by the master custodian provided they conform to fund guidelines. On September 30, 2004, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Board was \$338,832 and \$329,180, respectively, as of September 30, 2004. Of this amount only \$321,697 is cash collateral while letter of credit was \$84 and third party collateral is \$17,051.

The collateral held is included in cash and investments shown in Table 2a and Exhibit 4-a, and the securities on loan are reported at their carrying amounts also in Table 2a and Exhibit 4-a.

During fiscal year 2004, the Master Trust's gross earnings from securities lending transactions totaled \$3,712. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled \$3,066, \$632, and \$3,638 respectively, in 2004. The Fund's share of the net earnings on securities lending transactions totaled \$370 in fiscal year 2004.

NOTE 3. RESTRICTED ASSETS

At September 30, 2004, restricted assets of the primary government and its component units totaled \$5,518,910 as summarized in **Table 4**.

Table 4 – Summary of Restricted Assets

| | Governmental Funds/Governmental Activities | | | | Total |
|------------------------|--|-----------------------------------|---------------------------------|------------------|-------------------|
| | General | Federal & Private Resources | General Capital Improvements | Non-Major | |
| Bond Escrow Accounts | \$ 239,225 | \$ - | \$ - | \$ - | \$ 239,225 |
| Public Transportation | - | - | 252,152 | 21,199 | 273,351 |
| Emergency Cash Reserve | 285,409 | - | - | - | 285,409 |
| Debt Service Reserve | - | - | - | 1 | 1 |
| Other | 104,434 | 29,673 | - | 61,842 | 195,949 |
| Total | \$ 629,068 | \$ 29,673 | \$ 252,152 | \$ 83,042 | \$ 993,935 |

| | Proprietary Funds/Business-Type Activities | | | Fiduciary Funds | Component Units |
|-----------------------------|--|------------------------------|-------------------|---------------------|---------------------|
| | Lottery & Games | Unemployment Compensation | Total | | |
| Bond Escrow Accounts | \$ - | \$ - | \$ - | \$ - | \$ 1,016,384 |
| Unpaid Prizes | 66,481 | - | 66,481 | - | - |
| University Endowment | - | - | - | - | 7,242 |
| Benefits | - | 321,697 | 321,697 | 3,097,342 | - |
| Other | - | - | - | - | 4,828 |
| University gifts and grants | - | - | - | - | 15,829 |
| Total | \$ 66,481 | \$ 321,697 | \$ 388,178 | \$ 3,097,342 | \$ 1,044,283 |

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES**A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Due to/due from and interfund receivable and payable balances for each individual fund and component unit at September 30, 2004 are shown in **Table 5**.

Table 5 – Summary of Due To/Due From and Interfund Balances

| Fund or Component Unit | Primary Government/ Component Units | | Interfund | |
|--|--|------------------|-------------------|-------------------|
| | Receivables | Payables | Receivables | Payables |
| General | \$ 13,372 | \$ 28,209 | \$ 574,424 | \$ 2,952 |
| Federal & Private Resources | - | - | 27,266 | 169,767 |
| General Capital Improvements | - | - | - | 404,662 |
| Nonmajor governmental | - | - | 707 | - |
| Unemployment Compensation | - | - | 1,551 | 27,268 |
| Pension Trust | - | - | - | 700 |
| Agency | - | - | 1,401 | - |
| Water and Sewer Authority | 19,180 | 12,610 | - | - |
| Washington Convention Center | 5,735 | - | - | - |
| Sports and Entertainment Commission | - | 762 | - | - |
| University of the District of Columbia | 3,294 | - | - | - |
| Total | \$ 41,581 | \$ 41,581 | \$ 605,349 | \$ 605,349 |

The above balances represent the impact of transactions between the funds and component units which will be settled during fiscal year 2005.

B. INTERFUND TRANSFERS

Table 6 shows a summary of interfund transfers for the fiscal year ended September 30, 2004.

Table 6 – Summary of Interfund Transfers

| TRANSFER FROM (OUT) | TRANSFER TO (IN) | PURPOSE | AMOUNT |
|----------------------------------|--------------------------------|---|-------------------|
| General Fund | Nonmajor governmental Funds | Motor fuel taxes dedicated to the Highway Trust Fund | \$ 26,660 |
| Nonmajor governmental Funds | General Fund | Proceeds from escrow fund restructuring paid to the General Fund by the Tobacco Corporation | 9,557 |
| Lottery and Games | General Fund | DC Lottery and Games excess revenues, after operating cost, to the General Fund | 73,500 |
| TOTAL INTERFUND TRANSFERS | | | \$ 109,717 |

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES**C. OTHER RECEIVABLES**

Taxes and other receivables are valued at their estimated collectible amount. These receivables are presented in various funds as shown in **Table 7**.

Table 7 - Other Receivables

| | General | Federal & Private Resources | General Capital Improvements | Nonmajor Governmental Funds | Lottery and Games | Unemployment Compensation | Nonmajor Proprietary Fund | Pension Trust Funds | Private Purpose Trust Fund |
|--------------------------------------|-------------------|-----------------------------------|---------------------------------|-----------------------------------|----------------------|------------------------------|---------------------------------|---------------------------|----------------------------------|
| Gross Receivable: | | | | | | | | | |
| Taxes | \$ 227,988 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Accounts | 188,565 | 591,392 | 92,430 | 31,879 | 4,617 | 37,431 | 8,454 | 3,380 | 26 |
| Total gross receivable | 416,553 | 591,392 | 92,430 | 31,879 | 4,617 | 37,431 | 8,454 | 3,380 | 26 |
| Less-allowance for uncollectibles | 128,079 | 138,310 | 6,136 | - | 255 | 12,161 | 1,330 | - | - |
| Total net receivable | \$ 288,474 | \$ 453,082 | \$ 86,294 | \$ 31,879 | \$ 4,362 | \$ 25,270 | \$ 7,124 | \$ 3,380 | \$ 26 |

NOTE 5. CAPITAL ASSETS**Capital Outlays**

Capital outlays totaled \$666,649 for the fiscal year ended September 30, 2004, which are reported in the General Capital Improvements and Other Nonmajor Governmental Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the Governmental Activities column of the Government-Wide Financial Statements. Upon completion of the project, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building or equipment.

NOTE 5. CAPITAL ASSETS**A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS**

Table 8 presents the changes in the governmental activities capital assets by category for the primary government:

Table 8 - Changes in the Governmental Activities Capital Assets by Asset Class

| Asset Class | Balance October 1, 2003 | Additions | Transfers/ Dispositions | Transfers from CIP | Balance September 30, 2004 |
|---|------------------------------------|-------------------|------------------------------------|-------------------------------|---------------------------------------|
| Non-Depreciable : | | | | | |
| Land | \$ 219,076 | \$ - | \$ (1,135) | \$ - | \$ 217,941 |
| Construction in progress | 1,138,801 | 532,599 | - | (351,984) | 1,319,416 |
| Total non-depreciable | 1,357,877 | 532,599 | (1,135) | (351,984) | 1,537,357 |
| Depreciable: | | | | | |
| Infrastructure | 2,617,336 | - | - | 216,206 | 2,833,542 |
| Buildings | 2,328,937 | - | (32,177) | 90,449 | 2,387,209 |
| Equipment | 498,020 | 23,960 | (8,610) | 45,329 | 558,699 |
| Total depreciable | 5,444,293 | 23,960 | (40,787) | 351,984 | 5,779,450 |
| Less: Accumulated Depreciation for | | | | | |
| Infrastructure | 1,257,114 | 62,437 | - | - | 1,319,551 |
| Buildings | 896,577 | 65,624 | (8,950) | - | 953,251 |
| Equipment | 269,118 | 61,774 | (3,425) | - | 327,467 |
| Total Accumulated Depreciation | 2,422,809 | 189,835 | (12,375) | - | 2,600,269 |
| Total depreciable, Net | 3,021,484 | (165,875) | (28,412) | 351,984 | 3,179,181 |
| Net governmental activities capital assets | \$ 4,379,361 | \$ 366,724 | \$ (29,547) | \$ - | \$ 4,716,538 |
| Local Source | \$ 3,633,053 | \$ 222,161 | \$ (29,547) | \$ - | \$ 3,825,667 |
| Intergovernmental | 746,308 | 144,563 | - | - | 890,871 |
| Total resources invested, net | \$ 4,379,361 | \$ 366,724 | \$ (29,547) | \$ - | \$ 4,716,538 |

NOTE 5. CAPITAL ASSETS**B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION**

Table 9 presents the changes in the governmental activities capital assets by function for the primary government:

Table 9- Governmental Activities Capital Assets by Function

| Function | Balance October 1, 2003 | Additions | Transfers/ Dispositions | CIP Transfers in (out) | Balance September 30, 2004 |
|-------------------------------------|-------------------------------|-------------------|----------------------------|------------------------------|----------------------------------|
| Governmental direction and support | \$ 300,407 | \$ 1,127 | \$ (174) | \$ 28,326 | \$ 329,686 |
| Economic development and regulation | 89,513 | 882 | (87) | 3,700 | 94,008 |
| Public safety and justice | 578,952 | 9,524 | (5,841) | 9,323 | 591,958 |
| Public education system | 949,704 | 6,537 | (35) | 32,631 | 988,837 |
| Human support services | 608,732 | 2,826 | (32,535) | 49,423 | 628,446 |
| Public works | 3,136,061 | 3,064 | (3,250) | 228,581 | 3,364,456 |
| Construction in progress (CIP) | 1,138,801 | 532,599 | - | (351,984) | 1,319,416 |
| Total | \$ 6,802,170 | \$ 556,559 | \$ (41,922) | \$ - | \$ 7,316,807 |

C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION

A summary of changes in governmental activities capital assets depreciation by function for the primary government is shown in Table 10.

Table 10 – Governmental Activities Capital Assets Accumulated Depreciation By Function

| Function | Balance October 1, 2003 | Additions | Transfers/ Dispositions | Balance September 30, 2004 |
|-------------------------------------|-------------------------------|-------------------|----------------------------|----------------------------------|
| Government direction and support | \$ 98,160 | \$ 43,044 | \$ (16) | \$ 141,188 |
| Economic development and regulation | 21,443 | 2,214 | (143) | 23,514 |
| Public safety and justice | 222,206 | 24,770 | (3,291) | 243,685 |
| Public education system | 420,361 | 21,351 | 35 | 441,747 |
| Human support services | 259,636 | 12,051 | (8,942) | 262,745 |
| Public works | 1,401,003 | 86,405 | (18) | 1,487,390 |
| Total | \$ 2,422,809 | \$ 189,835 | \$ (12,375) | \$ 2,600,269 |

NOTE 5. CAPITAL ASSETS**D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS**

Business-Type Activities Capital Assets are presented in Table 11.

Table 11 –Business-Type Activities Capital Assets

| Asset Class | Balance October 1, 2003 | Additions | Transfers/ Dispositions | Balance September 30, 2004 |
|---------------------------------------|-------------------------------|------------------|----------------------------|----------------------------------|
| Lottery: | | | | |
| Equipment | \$ 3,956 | \$ 82 | \$ - | \$ 4,038 |
| Total | 3,956 | 82 | - | 4,038 |
| Nonmajor business-type | | | | |
| Land | - | 1,264 | - | 1,264 |
| Building | 4,503 | 36,821 | - | 41,324 |
| Equipment | 3,101 | 2,840 | - | 5,941 |
| Total Nonmajor business-type | 7,604 | 40,925 | - | 48,529 |
| Total Business-Type | 11,560 | 41,007 | - | 52,567 |
| Less-accumulated depreciation for: | | | | |
| Lottery | (2,602) | (405) | - | (3,007) |
| Nonmajor | (4,926) | (26,707) | - | (31,633) |
| Total accumulated depreciation | (7,528) | (27,112) | - | (34,640) |
| Net capital assets | \$ 4,032 | \$ 13,895 | \$ - | \$ 17,927 |

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in Tables 12 and 13.

Table 12 - Capital Assets by Class for the Discretely Presented Component Units

| Asset Class | Balance October 1, 2003 | Additions | Transfers/ Dispositions | CIP Transfers in (out) | Balance September 30, 2004 |
|---------------------------------------|-------------------------------|-------------------|----------------------------|------------------------------|----------------------------------|
| Land | \$ 12,868 | \$ 22 | \$ - | \$ - | \$ 12,890 |
| Utility plant | 1,847,742 | - | - | 46,724 | 1,894,466 |
| Buildings | 949,989 | 16,348 | - | - | 966,337 |
| Equipment | 133,451 | 2,329 | (5,606) | 9,057 | 139,231 |
| Artwork | 2,652 | 73 | - | - | 2,725 |
| Construction in progress | 368,713 | 240,523 | - | (55,781) | 553,455 |
| Total | 3,315,415 | 259,295 | (5,606) | - | 3,569,104 |
| Less-accumulated depreciation for | | | | | |
| Utility plant | (580,068) | (30,261) | - | - | (610,329) |
| Buildings | (110,734) | (28,537) | - | - | (139,271) |
| Equipment | (87,649) | (17,175) | 4,659 | - | (100,165) |
| Total accumulated depreciation | (778,451) | (75,973) | 4,659 | - | (849,765) |
| Net Capital Assets | \$ 2,536,964 | \$ 183,322 | \$ (947) | \$ - | \$ 2,719,339 |

NOTE 5. CAPITAL ASSETS

Table 13– Capital Assets by Component Unit

| Component Units | Balance October 1, 2003 | Additions | Transfers/ Dispositions | Balance September 30, 2004 |
|--|-------------------------------|-------------------|----------------------------|----------------------------------|
| University of the District of Columbia | \$ 150,002 | \$ 9,434 | \$ - | \$ 159,436 |
| Washington Convention Center | 833,388 | 9,149 | (2,106) | 840,431 |
| Water and Sewer Authority | 2,285,556 | 240,239 | (2,400) | 2,523,395 |
| Sports and Entertainment Commission | 41,565 | 304 | (1,100) | 40,769 |
| Housing Finance Agency | 4,904 | 169 | - | 5,073 |
| Total capital assets | 3,315,415 | 259,295 | (5,606) | 3,569,104 |
| Less-accumulated depreciation for: | | | | |
| University of the District of Columbia | (91,667) | (4,239) | - | (95,906) |
| Washington Convention Center | (22,290) | (29,284) | 2,106 | (49,468) |
| Water and Sewer Authority | (634,615) | (40,500) | 2,333 | (672,782) |
| Sports and Entertainment Commission | (27,964) | (1,682) | 220 | (29,426) |
| Housing Finance Agency | (1,915) | (268) | - | (2,183) |
| Total accumulated depreciation | (778,451) | (75,973) | 4,659 | (849,765) |
| Net component unit capital assets | \$ 2,536,964 | \$ 183,322 | \$ (947) | \$ 2,719,339 |

NOTE 5. CAPITAL ASSETS**F. CONSTRUCTION IN PROGRESS**

Construction in progress by function for governmental activities capital assets is shown in **Table 14**.

Table 14 – Construction in Progress by Function

| Function and Subfunction | Number of Projects | Authorizations | Expenditures | | | | Unexpended Balance |
|-------------------------------------|--------------------|----------------|--------------|--------------|--------------------|--------------|--------------------|
| | | | Prior Year | Current Year | Transfers from CIP | Total | |
| PRIMARY GOVERNMENT | | | | | | | |
| Governmental Direction and Support | | | | | | | |
| Finance | 3 | \$ 152,690 | \$ 113,702 | \$ 6,905 | \$ (530) | \$ 120,077 | \$ 32,613 |
| Personnel | 1 | 7,118 | 5,980 | 1,138 | - | 7,118 | - |
| Legislative | 2 | 2,035 | 1,984 | 51 | - | 2,035 | - |
| Administrative | 16 | 394,532 | 155,985 | 99,004 | (27,796) | 227,193 | 167,339 |
| Total | 22 | 556,375 | 277,651 | 107,098 | (28,326) | 356,423 | 199,952 |
| Public Safety and Justice | | | | | | | |
| Police | 3 | 27,120 | 10,197 | 1,474 | (9,323) | 2,348 | 24,772 |
| Fire | 16 | 33,442 | 9,313 | 6,020 | - | 15,333 | 18,109 |
| Correction | 5 | 29,822 | - | 4,604 | - | 4,604 | 25,218 |
| Medical Examiner | 3 | 330 | - | 330 | - | 330 | - |
| Total | 27 | 90,714 | 19,510 | 12,428 | (9,323) | 22,615 | 68,099 |
| Economic Development and Regulation | | | | | | | |
| Community Development | 3 | 61,675 | 5,266 | 2,315 | - | 7,581 | 54,094 |
| Planning & Economic Development | 1 | 2,159 | 2,159 | 3,699 | (3,699) | 2,159 | - |
| Total | 4 | 63,834 | 7,425 | 6,014 | (3,699) | 9,740 | 54,094 |
| Public Education System | | | | | | | |
| Public Education System | 60 | 885,987 | 268,582 | 115,269 | (32,631) | 351,220 | 534,767 |
| Human Support Services | | | | | | | |
| Health and Welfare | 42 | 116,620 | 92,665 | 25,063 | (31,930) | 85,798 | 30,822 |
| Human Relations | 6 | 13,722 | 1,099 | 961 | (157) | 1,903 | 11,819 |
| Recreation | 14 | 141,025 | 8,155 | 27,716 | (17,335) | 18,536 | 122,489 |
| Total | 62 | 271,367 | 101,919 | 53,740 | (49,422) | 106,237 | 165,130 |
| PUBLIC WORKS | | | | | | | |
| Environmental | 66 | 905,947 | 463,714 | 238,050 | (228,583) | 473,181 | 432,766 |
| Total | 66 | 905,947 | 463,714 | 238,050 | (228,583) | 473,181 | 432,766 |
| Totals | 241 | \$ 2,774,224 | \$ 1,138,801 | \$ 532,599 | \$ (351,984) | \$ 1,319,416 | \$ 1,454,808 |

The District has temporarily halted its implementation of a new payroll software system for the District of Columbia Public Education System. The total expenditures for construction in progress reported for the public education system includes \$16,007 for the software. A complete assessment of the implementation of the software will be performed in fiscal year 2005 to determine to what extent the system may have been impaired and how much of the accumulated cost, if any, should be written off.

NOTE 6. CONDUIT DEBT TRANSACTIONS**A. INDUSTRIAL REVENUE BOND PROGRAM**

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District thereby supporting the District's economic base. As of September 30, 2004, the aggregate outstanding principal amount for these conduit debt obligations was approximately \$3.5 billion.

B. ENTERPRISE ZONE FACILITY BONDS

Beginning January 1, 1998, businesses located in the District of Columbia Enterprise Zone (DC Zone) are eligible to obtain up to \$15 million of tax-exempt financing. Similar to Industrial Revenue Bonds, the principal and interest are payable solely from defined revenues of private entities, including non-profit and for-profit organizations. The District has no obligation for this debt beyond resources that many have been provided by related leases or loans. As of September 30, 2004 the aggregate outstanding principal amount for Enterprise Zone Facility Bonds is \$106,251.

NOTE 7. SHORT-TERM LIABILITIES**TAX REVENUE ANTICIPATION NOTES**

The District issued \$250,000 in Tax Revenue Anticipation Notes (TRANs) on December 2, 2003. This is a short term financing method used to provide for seasonal cash flow needs. The proceeds of the TRANs were used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2004. The TRANs are general obligations of

the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. The TRANs were issued as fixed-rate notes at 1.12%. Operational and other disbursement costs are covered by the TRANs proceeds until periodic taxes, grants and other revenues are received. The FY 2004 TRANs, as prescribed by law, were repaid in the current year on September 30, 2004.

NOTE 8. LONG-TERM LIABILITIES**A. LONG-TERM DEBT**

In the government-wide financial statements and proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

General Obligation Bonds

The District's general obligation bonds are authorized and issued primarily to provide funds for certain capital projects and improvements. The average interest rate on the District's outstanding fixed-rate bonds is 4.96%. The average interest rate on the District's variable-rate bonds for fiscal year 2004 is 1.04%. All general obligation bonds are backed by the full faith and credit of the District. In addition, the bonds are secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District on portions of certain real property. These tax revenues have been dedicated for the payment of bond principal and interest. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due. A summary of the outstanding debt totaling \$3,418,933 at September 30, 2004 is shown in **Table 15**.

NOTE 8. LONG-TERM LIABILITIES**Table 15 - Changes in Governmental Activities Long-Term Debt of Primary Government**

| | General Obligation Bonds | TIF Notes | TIF Bonds | Tobacco Bonds | QZAB | Total |
|---|--------------------------------|-----------------|-------------------|-------------------|-----------------|---------------------|
| Debt payable at October 1, 2003 | \$ 3,251,118 | \$ 5,879 | \$ 119,645 | \$ 506,550 | \$ 3,327 | \$ 3,886,519 |
| Bond and note proceeds: | | | | | | - |
| Series 2003B | 173,995 | - | - | - | - | 173,995 |
| Series 2003C | 50,025 | - | - | - | - | 50,025 |
| Series 2003D | 90,300 | - | - | - | - | 90,300 |
| Total | 3,565,438 | 5,879 | 119,645 | 506,550 | 3,327 | 4,200,839 |
| Debt payments: | | | | | | |
| Principal matured | 146,505 | 1,515 | - | 3,810 | 256 | 152,086 |
| Debt payable at September 30, 2004 | \$ 3,418,933 | \$ 4,364 | \$ 119,645 | \$ 502,740 | \$ 3,071 | \$ 4,048,753 |

On December 11, 2003, the District issued its Series 2003B General Obligation Bonds in the principal amount of \$173,995 (the "2003B Bonds"). The proceeds of these bonds were used to finance a portion of the District's fiscal year 2004 capital improvements program and pay the interest rate hedge termination fee (as described herein below). In connection with the issuance of the 2003B Bonds, the District on October 9, 2003, entered into an interest rate hedge agreement with a notional amount of \$175,000, with an interest rate of 4.263%. The District terminated such agreement on December 3, 2003, and upon such termination paid a termination fee of \$4,750. Also, on December 11, 2003, the District issued its Series 2003C and 2003D Multimodal General Obligation Bonds in the aggregate principal amount of \$140,325 (the "2003C Bonds" and "2003D Bonds," respectively). The proceeds of these bonds were also used to finance a portion of the District's fiscal year 2004 capital improvements program. The 2003B, 2003C and 2003D Bonds, together with other outstanding general obligation bonds and bonds to be issued in the future, are general obligations of the District, secured by the District's full faith and credit and further secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The Series 2003C and 2003D Bonds bear interest at variable rates from the date of issue until maturity, unless converted to a fixed rate. The initial rates for the 2003C and 2003D bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.12%. The final maturities of the 2003B, 2003C and 2003D Bonds are June 1, 2021, 2028, and 2026, respectively.

Prior to the creation of the Water and Sewer Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Water and Sewer Authority is

responsible for this debt. While the Water and Sewer Authority is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, District general obligation bonds totaling \$51,215 are reflected in the financial statements of the Water and Sewer Authority.

TIF Notes and Bonds

The Tax Increment Financing (TIF) Notes and Bonds are special limited obligations of the District. In 2001, the District promised to pay an aggregate principal amount of \$6,900 to the House on F Street Development Sponsor. The interest rate on this TIF note ranges from 2.13% to 3.53%. The sole source of repayment of the TIF Notes is the incremental revenues from the Project, and the District has no obligation to make any payments on the TIF Notes, other than through the remittance to the Paying Agent. If the incremental revenues are insufficient to pay the principal and interest due on the TIF Notes when due, such payment shortfall shall not constitute a default under the TIF agreement. If and when the incremental revenues are sufficient, the District shall pay the amount of any shortfall to the Development Sponsor without any penalty interest or premium thereon.

In 2002, the District promised to pay an aggregate principal amount of \$73,650 to the Gallery Place Development Sponsor and \$45,995 to the Mandarin Hotel Development Sponsor. Two Tax Increment Financing (TIF) Bonds were issued pursuant to the District of Columbia Tax Increment Financing Authorization Act of 1998, as amended, and the Trust Indenture dated as of April 1, 2002. Interest rates on the Gallery Place and Mandarin Hotel TIF Bonds range from 5.16% to 5.4%.

NOTE 8 LONG-TERM LIABILITIES

These two bond issuances are supported by the pledge of incremental revenues from the respective Projects and secondarily by incremental revenues from a Downtown TIF Area.

Tobacco Bonds

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District is scheduled to receive total annual payments aggregating an estimated \$1.2 billion by 2025. There are a number of potential adjustments to this schedule, including an inflation adjustment and a cigarette volume adjustment. In addition, there are numerous risks regarding whether the District will receive the full amount to which it is entitled under the terms of the Master Settlement Agreement, including various lawsuits outside the District alleging that the Master Settlement Agreement is void or voidable.

In 2001, the Tobacco Corporation issued \$521,105 principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001, of which \$502,740 was outstanding as of September 30, 2004. The payment of those bonds was secured by the distribution under the Master

Settlement Agreement. Payments received by the Tobacco Corporation under the Master Settlement Agreement in excess of the annual debt service requirements for the Tobacco Bonds may revert to the General Fund. However, none of such funds was returned to the General Fund during the fiscal year 2004. The Tobacco Bonds are neither general nor moral obligations of the District and are not secured by a pledge of the full faith and credit of the District.

During fiscal year 2004, the Tobacco Corporation took advantage of interest rates to restructure its defeasance escrow accounts related to the District's Tobacco Bonds. Certain securities in the defeasance escrow accounts had increased in value in excess of the amount needed to ensure the ability of the accounts to service the debt related to the District's general obligation bonds that were defeased with the proceeds from the sale of the Tobacco Bonds in 2001. The proceeds from the restructuring were transferred out of the defeasance escrow accounts as an additional financing source to the Tobacco Corporation. In accordance with debt agreements related to the Tobacco Bonds, the proceeds from the restructuring were required to be transferred to the District's General Fund. The amount of the proceeds transferred from the Tobacco Corporation to the District was \$9,557.

Summary of debt service requirements for general long-term debt to maturity is shown in Table 16.

Table 16 - Summary of Debt Service Requirements for General Long-Term Debt to Maturity

| Year Ending September 30 | General Obligation | | Tobacco Bonds | | Total |
|--------------------------|---------------------|---------------------|-------------------|-------------------|---------------------|
| | Principal | Interest | Principal | Interest | |
| 2005 | \$ 173,105 | \$ 165,898 | \$ 4,000 | \$ 32,473 | \$ 375,476 |
| 2006 | 181,615 | 156,685 | 4,720 | 32,223 | 375,243 |
| 2007 | 188,670 | 147,104 | 5,215 | 31,928 | 372,917 |
| 2008 | 198,795 | 136,936 | 12,585 | 31,602 | 379,918 |
| 2009 | 208,785 | 126,419 | 13,245 | 30,877 | 379,326 |
| 2010 - 2014 | 856,663 | 534,470 | 82,840 | 141,336 | 1,615,309 |
| 2015 - 2019 | 496,500 | 312,714 | 111,840 | 112,344 | 1,033,398 |
| 2020 - 2024 | 606,375 | 191,307 | 155,685 | 70,009 | 1,023,376 |
| 2025 - 2029 | 491,295 | 54,721 | 112,610 | 12,897 | 671,523 |
| 2030 - 2035 | 17,130 | 802 | - | - | 17,932 |
| Total | \$ 3,418,933 | \$ 1,827,056 | \$ 502,740 | \$ 495,689 | \$ 6,244,418 |

Due to the uncertainty of the future tax increment receipts, future payments on TIF notes and bonds are not included in the summary of debt service requirements

NOTE 8. LONG-TERM LIABILITIES**Defeased Bonds**

In prior years, the District has defeased certain bond issues by issuing refunding bonds. As of September 30, 2004, the total amount of defeased debt outstanding but removed from the government-wide financial statement was \$651,947.

Qualified Zone Academy Bond

The District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received \$4,665 and is obligated to deposit a total amount of \$3,327 into a sinking fund in fourteen equal amounts of \$256 beginning December 1, 2002.

A summary of Debt Service Requirements to Maturity for QZAB is shown in **Table 17**.

Table 17 - Summary of Debt Service Requirements for QZAB

| Year Ending September 30 | Qualified Zone Academy Bond (QZAB) | | |
|-----------------------------|---------------------------------------|-----------------|-----------------|
| | Principal | Interest | Total |
| 2005 | \$ 256 | \$ 24 | \$ 280 |
| 2006 | 256 | 36 | 292 |
| 2007 | 256 | 47 | 303 |
| 2008 | 256 | 59 | 315 |
| 2009 | 256 | 71 | 327 |
| 2010-2014 | 1,279 | 532 | 1,811 |
| 2015-2019 | 512 | 304 | 816 |
| Total | \$ 3,071 | \$ 1,073 | \$ 4,144 |

COMPONENT UNITS**Water and Sewer Authority**

The Water and Sewer Authority (WASA) derives its funding for future capital projects from the issuance of revenue bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. During the year ended September 30, 2004, the highest rate on these notes was 6.75% and the lowest rate was 4.95%. Debt outstanding at September 30, 2004 totaling \$801,245 included net unamortized bond premiums and discounts of (\$4,307) and a remaining principal balance of \$805,552.

Commercial Paper Note Payable

During fiscal year 2004, WASA issued and repaid an additional \$50 million in commercial paper, with interest rates ranging from 1.40 to 1.65 percent. All maturities were less than 270-days, as stipulated in the Board resolution authorizing the program. At the end of the fiscal year, WASA had no balance payable in Commercial paper.

A summary of WASA's debt service requirements to maturity for principal and interest is shown in **Table 18**.

NOTE 8 LONG – TERM LIABILITIES**Table 18 – Water and Sewer Authority Debt Service Requirements to Maturity**

| Year Ending September 30 | Principal | Interest | Total |
|-------------------------------------|-------------------|---------------------|---------------------|
| 2005 | \$ 16,134 | \$ 38,926 | \$ 55,060 |
| 2006 | 13,390 | 38,319 | 51,709 |
| 2007 | 7,555 | 37,576 | 45,131 |
| 2008 | 13,956 | 36,981 | 50,937 |
| 2009 | 14,002 | 36,145 | 50,147 |
| 2010 - 2014 | 86,666 | 194,802 | 281,468 |
| 2015 - 2019 | 105,399 | 177,009 | 282,408 |
| 2020 - 2024 | 124,821 | 144,407 | 269,228 |
| 2025 - 2029 | 188,006 | 146,473 | 334,479 |
| 2030 - 2034 | 231,493 | 160,057 | 391,550 |
| 2035 - 2039 | 2,854 | 492 | 3,346 |
| 2040 - 2044 | 1,276 | 63 | 1,339 |
| Sub-total | 805,552 | 1,011,250 | 1,816,802 |
| Less: Unamortized Net Bond Discount | (4,307) | - | (4,307) |
| Total | \$ 801,245 | \$ 1,011,250 | \$ 1,812,495 |

Washington Convention Center Authority

On September 29, 1998, the Washington Convention Center Authority (WCCA) issued \$524 million in senior lien dedicated tax revenue serial and term bonds at various rates ranging from 4.75% to 5.25%.

The bond proceeds were used to construct and equip the new convention center. The 1998 bonds are special obligations of the WCCA. The 1998 Bonds are payable solely from dedicated tax receipts and pledged funds established under the Trust Agreement.

The WCCA Act authorized the pledge of the dedicated taxes to secure the repayment of the 1998 bonds. Pursuant to the WCCA Act, the District has also pledged not to limit or alter any rights vested in the WCCA to fulfill agreements made with holders of the 1998 Bonds, or in any way impair rights and remedies of bondholders until the 1998 bonds and the interest thereon are paid in full.

A summary of WCCA's debt service requirements to maturity for principal and interest is shown in **Table 19**.

Table 19 – Washington Convention Center Authority Debt Service Requirements to Maturity

| Year Ending September 30 | Principal | Interest | Total |
|---------------------------------|-------------------|-------------------|-------------------|
| 2005 | \$ 10,685 | \$ 25,491 | \$ 36,176 |
| 2006 | 11,190 | 24,984 | 36,174 |
| 2007 | 11,720 | 24,452 | 36,172 |
| 2008 | 12,310 | 23,866 | 36,176 |
| 2009 | 12,925 | 23,251 | 36,176 |
| 2010 - 2014 | 75,535 | 105,336 | 180,871 |
| 2015 - 2019 | 97,455 | 83,414 | 180,869 |
| 2020 - 2024 | 124,705 | 56,160 | 180,865 |
| 2025 - 2029 | 157,710 | 23,168 | 180,878 |
| Sub-total | 514,235 | 390,122 | 904,357 |
| Less: Unamortized Bond Discount | (5,598) | - | (5,598) |
| Total | \$ 508,637 | \$ 390,122 | \$ 898,759 |

NOTE 8. LONG-TERM LIABILITIES**Housing Finance Agency**

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Interest rates on these bonds range from 2.25% to 7.5%. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semi-annually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the Housing Finance Agency's housing programs and are collateralized by: (a) mortgage loans made on the related developments or single-family residential mortgage loans purchased, (b) substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on related developments or (c) certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 20**.

Table 20 - Housing Finance Agency Debt Service Requirements to Maturity

| Year Ending September 30 | Principal | Interest | Total |
|-------------------------------|-------------------|---------------------|---------------------|
| 2005 | \$ 10,555 | \$ 40,775 | \$ 51,330 |
| 2006 | 6,140 | 40,582 | 46,722 |
| 2007 | 1,715 | 40,268 | 41,983 |
| 2008 | 3,570 | 40,145 | 43,715 |
| 2009 | 2,090 | 40,039 | 42,129 |
| 2010-2014 | 25,253 | 195,437 | 220,690 |
| 2015-2019 | 18,745 | 189,658 | 208,403 |
| 2020-2024 | 64,430 | 179,538 | 243,968 |
| 2025-2029 | 101,260 | 147,701 | 248,961 |
| 2030-2034 | 134,396 | 115,935 | 250,331 |
| 2035-2039 | 97,096 | 79,622 | 176,718 |
| 2040-2044 | 107,399 | 55,103 | 162,502 |
| 2045-2049 | 57,995 | 24,935 | 82,930 |
| 2050-2054 | 239,075 | 21,996 | 261,071 |
| Subtotal | 869,719 | 1,211,734 | 2,081,453 |
| Unamortized Bond Premium, net | 3,924 | | 3,924 |
| Total | \$ 873,643 | \$ 1,211,734 | \$ 2,085,377 |

NOTE 8. LONG TERM LIABILITIES

B. OTHER LONG-TERM LIABILITIES

Certificates of Participation

All the Certificates of Participation (COPs) obligations were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District agreed in the Lease Agreement to make lease payments (the "Lease Payments"), which are expected to be sufficient to pay the principal of and interest on the Certificates. The District has approximately \$57 million of outstanding Certificates of Participation issued by a trust in 2002 with a final maturity of 2013. The 2002 COPs were used to finance the acquisition of certain real property located at 441 Fourth Street, N.W., in the District. The debt service requirements on these COPs are included in capital leases payable (See Note 13C).

The District has approximately \$71.5 million of outstanding Certificates of Participation issued by a trust in 2003 with a final maturity of 2023, as shown in Table 21. The weighted average interest rate yield on these COPs is 4.59%. The 2003 COPs were used to provide funds to finance a portion of the design and construction of a public safety and emergency preparedness communications and command center and a portion of the design, construction and installation of a high-speed telecommunications network. In each case, the District's payment obligations are subject to and dependent upon both inclusion of sufficient funds in annual District budgets and annual appropriations being made by the United States Congress for such purpose.

Table 21, Summary of Debt Service Requirements for COP

| Year Ending September 30 | Emergency Preparedness Communications Center & Related Technology (COP) | | |
|-----------------------------|---|------------------|-------------------|
| | Principal | Interest | Total |
| 2005 | \$ 2,480 | \$ 3,321 | \$ 5,801 |
| 2006 | 2,555 | 3,246 | 5,801 |
| 2007 | 2,635 | 3,168 | 5,803 |
| 2008 | 2,735 | 3,064 | 5,799 |
| 2009 | 2,850 | 2,949 | 5,799 |
| 2010-2014 | 16,265 | 12,737 | 29,002 |
| 2015-2019 | 20,820 | 8,187 | 29,007 |
| 2020-2023 | 21,115 | 2,085 | 23,200 |
| Total | \$ 71,455 | \$ 38,757 | \$ 110,212 |

A summary of changes in other long-term liabilities for governmental activities is shown in Table 22.

Table 22 - Changes in Other Long-Term Liabilities

| Account | Balance October 1, 2003 | Additions | Deductions | Balance September 30, 2004 |
|---|-------------------------------|------------------|---------------------|----------------------------------|
| Governmental Activities: | | | | |
| Accrued disability compensation (Note 14) | \$ 260,771 | \$ 42,623 | \$ (36,496) | \$ 266,898 |
| Accumulated annual leave | 102,571 | - | (1,264) | 101,307 |
| COP public safety center | 71,455 | - | - | 71,455 |
| Grant disallowances | 67,336 | - | (66,609) | 727 |
| Claims & judgments (Note 14) | 51,029 | 22,127 | (17,643) | 55,513 |
| Equipment financing program (Note 13) | 56,756 | 20,822 | (19,070) | 58,508 |
| Accreted interest | 19,615 | 2,931 | - | 22,546 |
| Capital leases payable (Note 13) | 90,458 | 503 | (6,505) | 84,456 |
| Total | \$ 719,991 | \$ 89,006 | \$ (147,587) | \$ 661,410 |
| Business-Type Activities: | | | | |
| Obligation for unpaid prizes | \$ 73,537 | \$ - | \$ (7,056) | \$ 66,481 |

NOTE 8. LONG-TERM LIABILITIES**C. CURRENT PORTION OF LONG-TERM LIABILITIES**

Table 23 presents the current and long-term portions of long-term liabilities.

Table 23 – Current & Long-Term Portions of Long-Term Liabilities

| Type of Liability | Current Portion | Long-Term Portion | Total |
|-----------------------------------|-------------------|---------------------|---------------------|
| Government-Wide Activities | | | |
| General Obligation Bonds | \$ 173,105 | \$ 3,245,828 | \$ 3,418,933 |
| TIF Bonds and Notes | - | 124,009 | 124,009 |
| QZAB | 256 | 2,815 | 3,071 |
| Capital Leases | 8,082 | 76,374 | 84,456 |
| Tobacco Bonds | 4,000 | 498,740 | 502,740 |
| Annual leave | 64,431 | 36,876 | 101,307 |
| Disability compensation | 34,376 | 232,522 | 266,898 |
| Equipment financing program | 19,186 | 39,322 | 58,508 |
| Accreted interest | - | 22,546 | 22,546 |
| Claims and judgements | - | 55,513 | 55,513 |
| Grant disallowances | - | 727 | 727 |
| COP - Public Safety Center | 2,480 | 68,975 | 71,455 |
| Total | \$ 305,916 | \$ 4,404,247 | \$ 4,710,163 |
| Business-Type Activities | | | |
| Obligation for unpaid prizes | \$ 8,631 | \$ 57,850 | \$ 66,481 |

Obligation for Unpaid Prizes

The Lottery is a member of the Multi-State Lottery Association (MUSL) responsible for payments to Lotto-America and Powerball winners. MUSL is responsible for providing cash to the Lottery for funding these installment payments. As of September 30, 2004, MUSL purchased for the Lottery, U.S. government securities

totaling \$80,163 to fund future installment payments to winners.

The market value of these securities at September 30, 2004 was \$66,481. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statement of net assets.

NOTE 9. RETIREMENT PROGRAMS**A. DEFINED BENEFIT PENSION PLANS**

District full-time employees receive pension benefits either through the federally administered Civil Service Retirement System or the District's Retirement Programs and the Social Security System.

Plan Descriptions**Civil Service Retirement and Social Security Systems**

The Civil Service Retirement System (5 U.S.C. 8331), a cost sharing multiple employer public employee retirement system, covers permanent full-time employees hired before October 1, 1987 (except those covered by the

District Retirement Program).

The Balanced Budget Act of 1997 (P. L. 105-33) mandated an increase in the District's contribution for most Civil Service covered employees from 7% to 8.51% (9.01% for law enforcement officers and firefighters.) This increase became effective for the first pay period ended on or after October 1, 1997.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2004, 2003, and 2002, were as shown in **Table 24**. Financial statements for the Civil Service Plan are available from the U.S. Office of Personnel Management at www.opm.gov.

NOTE 9. RETIREMENT PROGRAMS**Table 24 - Summary of District Contributions to Federally Administered Pension Plans**

| Plan | Rate | Employees | | 2004 | | 2003 | | 2002 |
|----------------------|-------------|------------------|----|-------------------------|----|-------------------------|----|-------------------------|
| Civil Service | 8.51% | 7,124 | \$ | 23,363 | \$ | 23,637 | \$ | 25,855 |
| Social Security | 7.65% | 11,434 | | <u>56,406</u> | | <u>52,000</u> | | <u>51,338</u> |
| Total | | | \$ | <u>79,769</u> | \$ | <u>75,637</u> | \$ | <u>77,193</u> |
| Total Payroll | | | \$ | <u>1,719,073</u> | \$ | <u>1,565,725</u> | \$ | <u>1,585,193</u> |

The District has no further liability to the plans.

District Retirement Programs

The Retirement Board administers the District's Retirement Programs (D.C. Code 4-601, 11-1561, 31-120), which are single employer defined benefit pension plans, one established for police and firefighters and the other for teachers.

Each of the two plans provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Each pension trust fund issues a publicly available financial report that includes financial statements and required supplementary information. These reports can be obtained from the District of Columbia Retirement Board, Executive Director, 1400 L Street, N. W., Suite 300, Washington, D. C. 20005.

Funding Policy

The Retirement Board establishes, for each pension trust fund, the contribution requirements of plan members and the District government. The Retirement Board, when deemed necessary, may amend these requirements. A summary of the actuarial assumptions is shown in **Table 25**.

Members contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the Fund at membership. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual

pay minus any pay received for summer school. Members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The Replacement Act defines the eligibility and the calculation of the amount of the benefit payment for covered District employees for service accrued after June 30, 1997. The District's contributions for fiscal years 2004, 2003 and 2002 were equal to the Fund's independent actuary's recommendation.

Under P. L. 105-33, the federal government makes annual contributions to the Police and Firefighters' Plan and to the Teachers' plan on behalf of District employees and retirees. These on-behalf payments totaled \$270,000 for the year ended September 30, 2004 and have been reported as intergovernmental revenue. Related expenditures of \$213,300 and \$56,700 have been reported in the public safety and justice and the public education systems functions, respectively.

NOTE 9. RETIREMENT PROGRAMS**Table 25 - Actuarial Assumptions**

| | Police and Fire | Teachers |
|---------------------------------|------------------------|-----------------|
| Contribution rates plan members | 7% - 8% | 7% - 8% |
| Actuarial valuation date | 10/01/02 | 10/01/02 |
| Actuarial cost method | Aggregate* | Aggregate* |
| Asset valuation method | Market value | Market value |
| Actuarial assumptions: | | |
| Investment rate of return | 7.25% | 7.25% |
| Projected salary increases | 5.5% - 8.8% | 5.3% - 8.8% |
| Inflation rate | 5% | 5% |
| Cost of living adjustments | 5% | 5% |

*The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Actuarially Required Contributions

The District made its actuarially required contribution of \$96.7 million to the Police and Firefighters' Plan during the year ended September 30, 2004, while there was no required contribution for the Teachers' plan. (See Required Supplementary Information for details)

B. DEFINED CONTRIBUTION PENSION PLANS**District of Columbia**

Under the provisions of D. C. Code 1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered under the Social Security System. Employees do not contribute to the plan and are eligible to participate after one year of service. The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan. For the fiscal year ended September 30, 2004, District contributions to the plan were \$24,000. This plan also covers employees of the Sports Commission, D. C.

Housing Authority and Water and Sewer Authority, while the employees of the Housing Finance Agency, Washington Convention Center and the University are covered under their own separate defined contribution plans.

C. DEFERRED COMPENSATION PLANS**Internal Revenue Code Section 403 Plan**

The District sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to \$13 thousand of their annual compensation for calendar year 2004. Employees with more than fifteen years of service may defer up to \$15 thousand for the calendar year 2004. Also an additional deferral of \$2 thousand was available to participants who were at least 50 years old before the end of the calendar year. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees,

NOTE 9. RETIREMENT PROGRAMS

including teachers, were able to defer the lesser of \$13 thousand or 100% of includible compensation in calendar year 2004. Also an additional deferral of \$3 thousand was available to participants who were at least 50 years old before the end of the calendar year. Compensation

deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 10. FUND BALANCE RESERVATIONS/DESIGNATIONS

Reserved/restricted and designated fund balances at September 30, 2004 are shown in **Table 26**.

Table 26 - Schedule of FY 2004 Reserved/Restricted and Designated Fund Balances

| | General Fund | Federal & Private Resources | General Capital Improvements | Nonmajor Governmental Funds | Unemployment Compensation Fund | Fiduciary Funds |
|---------------------------------------|---------------------|-----------------------------------|------------------------------------|-----------------------------------|--------------------------------------|---------------------|
| Reserved/Restricted | | | | | | |
| Long term assets | \$ 1,828 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Emergency/contingency cash reserve | 285,409 | - | - | - | - | - |
| Bond escrow | 239,225 | - | - | - | - | - |
| Inventory | 9,999 | 2,256 | - | - | - | - |
| Budget | 30,922 | - | - | - | - | - |
| Purpose restrictions | 30,520 | 137,351 | 11,944 | - | - | - |
| Charter school loans | 10,000 | - | - | - | - | - |
| Joint venture capital subsidies | - | - | 11,336 | - | - | - |
| Unemployment benefits | - | - | - | - | 294,476 | - |
| Tobacco settlement | - | - | - | 91,060 | - | - |
| Tax increment financing | - | - | - | 8,624 | - | - |
| Future benefits | - | - | - | - | - | 2,644,519 |
| Highway projects | - | - | - | 20,634 | - | - |
| Total Reserved Fund Balances | \$ 607,903 | \$ 139,607 | \$ 23,280 | \$ 120,318 | \$ 294,476 | \$ 2,644,519 |
| Unreserved | | | | | | |
| Designated: | | | | | | |
| Post employment benefits | 227,336 | - | - | - | - | - |
| Other special purposes | 194,692 | - | - | - | - | - |
| Paygo capital | 40,000 | - | - | - | - | - |
| Subsequent year expenditures | 91,330 | - | - | - | - | - |
| Undesignated | 53,754 | - | (273,432) | - | - | - |
| Total Unreserved Fund Balances | \$ 607,112 | \$ - | \$ (273,432) | \$ - | \$ - | \$ - |
| Total Fund Balances | \$ 1,215,015 | \$ 139,607 | \$ (250,152) | \$ 120,318 | \$ 294,476 | \$ 2,644,519 |

The general capital improvements fund has a negative fund balance of \$(250,152) at September 30, 2004, which will be reduced in subsequent fiscal years by a combination of operating transfers from the general fund, reductions in capital budget authority, and lower annual spending in capital programs.

NOTE 11. JOINT VENTURE**Washington Metropolitan Area Transit Authority**

The Washington Metropolitan Area Transit Authority (WMATA) was created by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating, debt service and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the

funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2004 is shown in **Table 27**.

Table 27 - Summary of Grants Provided to WMATA

| <u>Account</u> | <u>Amount</u> |
|---------------------|-------------------|
| Operating grants | \$ 152,270 |
| Debt service grants | 10,331 |
| Capital grants | 48,779 |
| Total | \$ 211,380 |

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D. C. 20001.

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT**A. FEDERAL CONTRIBUTION**

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced with a Federal contribution to cover special purpose and other unusual costs imposed on the District by the Federal government. Federal contributions to the District for the year ended September 30, 2004 totaled \$393,928.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive any federal payment for emergency preparedness in fiscal year 2004. In prior years, these funds were made available to assist the District to prepare itself and its citizens to more effectively respond to any threat or possible terrorist attack. Of the \$155,900 received in fiscal year 2002, \$16,316 was spent in fiscal year 2004. As of September 2004, a total amount of \$139,445 has been spent.

C. GRANTS

The District participates in a number of federal award programs, which are funded through formula and project grants, direct payments for specified and unrestricted use, food stamps and other pass-through grants and direct and guaranteed loans.

The federal government also provides capital grants, which are used for the purchase or construction of fixed assets. Capital grants are recorded as intergovernmental revenue in the General Capital Improvements Fund. Federal grants and contributions are shown by function on the government-wide financial statements.

D. WATER AND SEWER SERVICES

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities and the Water and Sewer Authority recorded this debt and related capital costs in its financial statements. In 1997, the Water and Sewer Authority and the other Northern Virginia customers entered into an agreement with the federal government, which provides for the funding of the

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

Washington Aqueduct's capital improvement program directly through borrowings. The Water and Sewer Authority is now responsible for funding only its portion of this debt, other related capital projects, and operating costs calculated as the pro rata share of water purchased. The Water and Sewer Authority records payments for capital costs related to the Washington Aqueduct as purchased capacity. Such costs, which are allocable to other jurisdictions, but funded by the Water and Sewer Authority prior to April 1, 1999, are reported as due from other jurisdictions.

Capital outlays are capitalized and depreciated over 60-years by the Water and Sewer Authority. Total capital outlays including capitalized interest from the U.S. Treasury draw-downs and pay-as-you-go financing were \$6,988 for the fiscal year ended September 30, 2004.

NOTE 13. LEASES**A. CAPITAL LEASES**

The District leases buildings and equipment under various agreements that are accounted for as capital leases that have varying terms. Capital lease commitments are recorded in the government-wide financial statements.

Capital lease payments are classified as current expenditures in the governmental funds. Such expenditures totaled \$8,974, in 2004.

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program. (the "Program") in 1998 to provide tax-exempt financing for projects with short-term to intermediate-term useful lives. The Program enables the District to improve its asset/liability management by matching the useful life of the asset being financed to the amortization of the liability (5 to 10 years).

As of September 30, 2004, the District had financed approximately \$112.8 million of its capital equipment needs through the Program, and had approximately \$58.5 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 3.6%, with payments being made on a quarterly basis.

Equipment procured under this program include such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items.

Table 28 shows the schedule of equipment financing program payments.

Table 28 – Schedule of Equipment Financing Program Payments

| Year Ending September 30 | Principal | Interest | Total |
|---------------------------------|------------------|-----------------|------------------|
| 2005 | \$ 19,186 | \$ 2,104 | \$ 21,290 |
| 2006 | 18,867 | 1,290 | 20,157 |
| 2007 | 10,736 | 591 | 11,327 |
| 2008 | 6,195 | 257 | 6,452 |
| 2009 | 3,524 | 78 | 3,602 |
| Total | \$ 58,508 | \$ 4,320 | \$ 62,828 |

NOTE 13. LEASES**B. OPERATING LEASES**

Operating leases are not recorded in the statement of net assets. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were \$99,264 in 2004.

C. SCHEDULES OF FUTURE MINIMUM LEASE COMMITMENTS

The present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year at September 30, 2004 are shown in **Table 29**.

Table 29 - Schedule of Future Minimum Lease Payments

| Year Ending September 30 | Primary Government | | Component Units | |
|----------------------------------|--------------------|-------------------|-----------------|------------------|
| | Capital Leases | Operating Leases | | Equip-ment |
| | | Facilities | Equip-ment | |
| 2005 | \$ 12,694 | \$ 84,673 | \$ 3,903 | \$ 1,450 |
| 2006 | 12,672 | 87,481 | 2,854 | 1,450 |
| 2007 | 12,436 | 91,472 | 1,550 | 1,450 |
| 2008 | 10,715 | 83,132 | 772 | 1,450 |
| 2009 | 10,718 | 40,769 | 532 | 1,450 |
| 2010-2014 | 52,628 | 70,182 | - | 7,250 |
| 2015-2019 | - | 3,402 | - | 7,250 |
| 2020-2024 | - | - | - | 3,015 |
| Minimum lease payments | 111,863 | \$ 461,111 | \$ 9,611 | \$ 24,765 |
| Less - imputed interest | 27,407 | | | |
| Present value of payments | \$ 84,456 | | | |

NOTE 14. COMMITMENTS AND CONTINGENCIES**A. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays all claim settlements and judgments out of its General Fund resources and reports all of its risk management activities as governmental activities in the government-wide financial statements. Claims expenditures and liabilities are reported in the government-wide financial statements when it is probable that loss has occurred and the amount of that loss can be reasonably estimated and in the General Fund when due and payable. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2004. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. An accrual of \$727 in the government-wide financial statements has been provided which estimates the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience.

NOTE 14. COMMITMENTS AND CONTINGENCIES

During fiscal year 2004, the District became aware of an investigation being conducted by the Federal Bureau of Investigation of one of its major vendors that previously provided claims processing services related to a major grant program. The District is not a party to the investigation; however, the results of the investigation may impact amounts previously recorded as revenue for this grant program. Due to the uncertainty related to the ultimate resolution of this investigation, no provision for grant disallowances has been included in the financial statements related to this matter.

C. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the liability for claims and judgments at September 30, 2004.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of excess of the range of probable losses and the minimum range of losses that are reasonably possible which are not accrued is estimated to be \$47,006.

Summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 30**.

Table 30 - Summary of Changes in Claims and Judgments Accrual

| Description | 2004 | 2003 |
|----------------------------------|------------------|------------------|
| Liability at October 1 | \$ 51,029 | \$ 28,969 |
| Incurring claims | 22,127 | 40,753 |
| Less: | | |
| claims payments/adjustments | (17,643) | (18,693) |
| Liability at September 30 | \$ 55,513 | \$ 51,029 |

D. DISABILITY COMPENSATION

The District, through its risk management department, administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit

Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value discounted at 4.5% of projected disability compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 31**.

Table 31 - Summary of Changes in Disability Compensation Accrual

| Description | 2004 | 2003 |
|----------------------------------|-------------------|-------------------|
| Liability at October 1 | \$ 260,771 | \$ 231,883 |
| Claims incurred | 42,623 | 64,738 |
| Less-benefit payments | (36,496) | (35,850) |
| Liability at September 30 | \$ 266,898 | \$ 260,771 |

During the fiscal year 2004, a settlement was reached in a lawsuit instituted by a certified class of plaintiffs who challenged the modification and/or termination of benefits they had been provided under the District's Disability Compensation Program. The Court ordered that the disability compensation benefits of all members of the plaintiff class be reinstated until individualized determinations made under validly promulgated rules are made. The amount of the additional liability related to this settlement cannot presently be determined and, accordingly, no provision has been made for the settlement in these financial statements.

E. INTEREST RATE SWAP AGREEMENTS

Part of the District's debt strategy is to have a diversified portfolio of fixed-rate and variable-rate debt to take advantage of market fluctuations. In order to manage its exposure to interest rates, the District has executed Interest Rate Swap Agreements in connection with existing or proposed debt issuances as discussed below.

Terms**2002D Swap**

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$124,995

NOTE 14. COMMITMENTS AND CONTINGENCIES

Multimodal General Obligation Refunding Bonds, Series 2002D ("2002D Swap"). The original notional amount of the swap was \$124,995. Under the terms of the swap, scheduled to terminate in 2031, the District pays a fixed-rate of 3.617% and receives variable rate payments equivalent to the Bond Market Association Municipal Swap Index (BMA) until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2015.

2002B Swap

On October 15, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$224,300 Multimodal General Obligation Bonds, Series 2002B ("2002B Swap"). The original notional amount of the swap was \$224,300. Under the terms of the swap, scheduled to terminate in 2027, the District pays a fixed-rate of 3.615% and receives variable rate payments equivalent to BMA until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2020.

2001C/D Swap

On December 6, 2001, the District entered into a floating-to-fixed rate swap in connection with its \$214,155 Multimodal General Obligation Bonds, Series 2001C and its \$69,715 Multimodal General Obligation Refunding Bonds, Series 2001D ("2001C/D Swap"). The original notional amount of the swap was \$283,870. Two firms, Bear, Stearns & Co. Inc. ("Bear Stearns") and UBS PaineWebber, Inc. ("UBS PaineWebber"), negotiated the split of this swap transaction. As a result, Bear Stearns and UBS PaineWebber received 62.5% and 37.5% of the notional amount of the swap, respectively. Under the terms of the swap, scheduled to terminate in 2029, the District pays a fixed-rate of 4.004% and receives variable rate payments equivalent to BMA until June 2, 2003 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 2003.

On June 2, 2003, the District entered into an enhanced interest rate swap agreement for the 2001C/D Bond issue ("2001C/D Enhanced Swap"). Based on the 2001C/D Enhanced Swap, the District pays the counterparty 67% of LIBOR and the counterparty pays the District a variable rate as a percentage of the actual LIBOR reset each month. The purpose of this swap is to reduce the basis risk to the District by providing a closer match between the District underlying variable rate bonds and the variable rate swap receipt from the counterparty. Only the net difference in interest payments is actually

exchanged between the counterparties.

1992A/2001A Swap

On March 26, 1992, the District entered into a floating-to-fixed rate swap in connection with its \$299,800 General Obligation Variable Rate Refunding Bonds, Series 1992A ("1992A/2001A Swap"). The 1992A Bonds were refunded by the District's \$114,150 Multimodal General Obligation Refunding Bonds, Series 2001A. The original notional amount of the swap was \$299,800. Under the terms of the swap, scheduled to terminate in 2007, the District pays a fixed-rate of 6.02% and receives variable rate payments equivalent to the J.J. Kenny Index. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 1992.

Fair Market Value

As of September 30, 2004, the 2002D, 2002B, 2001C/D and 1992A/2001A Swaps ("Swaps") had fair market values as shown in **Table 32**:

Table 32 – Swaps Fair Market Values

| Swaps Fair Market Values | |
|---------------------------------|--------------------|
| 2002D Swap | \$ (1,568) |
| 2002B Swap | (9,226) |
| 2001C/D (Enhanced Swap) | (13,283) |
| 2001C/D (Bear Stearns) | (7,866) |
| 2001C/D (UBS PaineWebber) | (3,483) |
| 2001A | (5,397) |
| Total | \$ (40,823) |

The market value was provided by the counterparty to each respective swap and confirmed by Phoenix Capital Advisors.

Credit Risk.

The swaps' fair market value represents the District's obligation to the counterparties if the swaps were terminated. As of September 30, 2004, the District is not exposed to any credit risk because the swaps have a negative fair value. Should the counterparty to these transactions fail to perform according to the terms of the swaps' contracts, the District faces a maximum possible loss equivalent to the swaps' fair market value \$(40,823) in aggregate). Standard & Poor's and Moody's rated counterparty to each swap as of September 30, 2004 is presented in **Table 33**.

NOTE 14. COMMITMENTS AND CONTINGENCIES**Table 33 – Swaps Counterparty Credit Ratings**

| Swap | Counterparty | Credit Rating |
|---------|-----------------|-------------------|
| 2002D | Lehman Brothers | A/A2 |
| 2002B | Morgan Stanley | A+/Aa3 |
| 2001C/D | Bear Stearns | AAA/Aaa (Insured) |
| 2001C/D | UBS PaineWebber | AAA/Aaa (Insured) |
| 2001C/D | Bear Stearns | AAA+/Aaa |
| 2001A | Merrill Lynch | A+/Aa3 |

Basis Risk

The District is subject to basis risk if the variable payment received from the counterparty does not equal the rate on the bonds.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the

contract. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement defines an “additional termination event.” That is, the swap may be terminated if the counterparty or its Credit Support Provider, or the District has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody’s Investors Service, Inc., (ii) BBB- or higher as determined by Standard & Poor’s Ratings Service, A Division of the McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties.

Swap Payments and Associated Debt

Using interest rates as of September 30, 2004, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 34**. As rates vary, net swap payments will vary. As the principal on the variable rate bonds mature, the swaps’ notional amount likewise diminishes, or amortizes as well.

Table 34 – Swaps Interest Requirements

| Governmental Activities | | | | | |
|--|--------------------|------------|---------------|--------------|--|
| Primary Government Year Ending September 30 | General Obligation | | Interest Rate | Total | |
| | Principal | Interest | Swaps, Net | | |
| 2005 | \$ 29,985 | \$ 9,871 | \$ 15,842 | \$ 55,698 | |
| 2006 | 19,420 | 9,485 | 14,875 | 43,780 | |
| 2007 | 12,385 | 9,248 | 14,294 | 35,927 | |
| 2008 | 13,040 | 12,994 | 13,855 | 39,889 | |
| 2009 | 7,350 | 8,929 | 13,530 | 29,809 | |
| 2010 - 2014 | 60,300 | 42,736 | 63,360 | 166,396 | |
| 2015 - 2019 | 83,265 | 38,655 | 54,636 | 176,556 | |
| 2020 - 2024 | 257,875 | 27,072 | 37,009 | 321,956 | |
| 2025 - 2029 | 177,965 | 6,415 | 8,643 | 193,023 | |
| 2030 - 2035 | 7,980 | 203 | 232 | 8,415 | |
| Total | \$ 669,565 | \$ 165,608 | \$ 236,276 | \$ 1,071,449 | |

F. DEBT SERVICE DEPOSIT AGREEMENTS

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments.

Upon early termination of an agreement and depending upon the then current interest rates, a termination amount may be owed by the District. At September 30, 2004, deferred revenue of \$5,634 related to this agreement is recorded in the government-wide financial statements.

NOTE 15 SUBSEQUENT EVENTS**A. ISSUANCE OF BONDS, NOTES AND OTHER OBLIGATIONS**

On December 8, 2004, the District issued its Series 2004A General Obligation Bonds in the principal amount of \$200,870 (the "2004A Bonds"). The proceeds of these bonds will be used to finance a portion of the District's fiscal year 2005 capital improvements program. Also, on December 8, 2004, the District issued its Series 2004B General Obligation Bonds in the principal amount of \$38,250 (the "2004B Bonds") and Multimodal General Obligation Bonds, Series 2004C (the "2004C Bonds") in the principal amount of \$147,250. The proceeds of these bonds are being used to finance a portion of the District's fiscal year 2005 capital improvements program. The 2004A, 2004B and 2004C Bonds, together with other outstanding general obligation bonds and bonds to be issued in the future, are general obligations of the District, secured by the District's full faith and credit and further secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The 2004A Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.45%. The 2004B bonds were issued as CPI Bonds. The Series 2004C Sub-series 2004C-1, Sub-series 2004C-2 and Sub-series 2004C-3, were issued as Auction Rate Securities with initial interest rates ranging from 1.45% to 1.85%. The final maturities of the 2004A, 2004B and Series 2004C Bonds are June 1, 2027, 2020, and 2034, respectively.

On November 23, 2004, the District issued Fiscal Year 2005 General Obligation Tax Revenue Anticipation Notes in the aggregate principal amount of \$250,000 (the "Notes"). The proceeds of these notes were issued to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2005. The notes are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. The Notes were issued as fixed-rate notes with a rate yield of 2.05%, and mature on September 30, 2005.

B. HOUSING FINANCE AGENCY

On December 21, 2004, the agency issued collateralized multifamily housing revenue bonds Series 2004 for \$9 million with interest rates of 2.9%. On December 28, 2004, the Agency also issued multifamily housing revenue bonds Series 2004 D&E for \$13.5 million with interest rates of 2.32%.

C. SWAP AGREEMENTS

On November 17, 2004, the District entered into a floating-to-fixed interest rate swap in connection with the issuance of \$38,250 General Obligation Bonds, Series 2004B ("2004B Swap"). The original notional amount of the swap is \$38,250. Under the terms of the 2004B Swap, scheduled to terminate in 2020, the District pays fixed rates of 4.598% in 2014, 4.701% in 2015, 4.794% in 2016 and 5.121% in 2020, and receives variable rate payments equal to the MUNI-CPI rate which is the actual rate on the Series 2004B Bonds. The notional value of the 2004B Swap and the principal amount of the associated debt service begins to decline in fiscal year 2013.

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2004

Six-year historical trend information of the retirement systems administered by the reporting entity is presented in the following tables as required supplementary information.

Police and Fire Pension Plan

| Year Ended | Annual Pension Cost (APC) (millions) | Percentage of APC Contributed | Net Pension Obligation |
|------------|---|----------------------------------|------------------------|
| 09/30/04 | \$ 96.7 | 100% | \$ 0 |
| 09/30/03 | 68.9 | 100% | 0 |
| 09/30/02 | 74.6 | 100% | 0 |
| 09/30/01 | 49.0 | 100% | 0 |
| 09/30/00 | 39.9 | 100% | 0 |
| 09/30/99 | 35.1 | 100% | 0 |
| 09/30/98 | 47.7 | 100% | 0 |

Teachers Pension Plan

| Year Ended | Annual Pension Cost (APC) (millions) | Percentage of APC Contributed | Net Pension Obligation |
|------------|---|----------------------------------|------------------------|
| 09/30/04 | \$ 0 | N/A | \$ 0 |
| 09/30/03 | 0 | N/A | 0 |
| 09/30/02 | 0 | N/A | 0 |
| 09/30/01 | .2 | 100% | 0 |
| 09/30/00 | 10.7 | 100% | 0 |
| 09/30/99 | 18.6 | 100% | 0 |
| 09/30/98 | 9.6 | 100% | 0 |

N/A: Not applicable

(Unaudited – See Accompanying Independent Auditors' Report)

OTHER SUPPLEMENTARY INFORMATION

This subsection includes the combining and individual fund statements and schedules for the following:

General Fund

Nonmajor Governmental Funds

Fiduciary Funds

Supporting schedules

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GENERAL FUND

The General Fund is used to account for all financial resources that are not required to be accounted for in another fund.

Exhibit A-1

**GENERAL FUND
BALANCE SHEET
September 30, 2004
(With Comparative Totals at September 30, 2003)
(\$000s)**

| | 2004 | 2003 |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents (unrestricted) | \$ 436,041 | \$ 524,008 |
| Investments | - | 46,141 |
| Receivables (net of allowances for uncollectibles): | | |
| Taxes | 227,988 | 226,189 |
| Accounts | 60,486 | 86,856 |
| Due from component units | 13,372 | 957 |
| Interfund | 574,425 | 255,863 |
| Inventories | 9,999 | 13,179 |
| Other current assets | - | 4,529 |
| Cash and cash equivalents (restricted) | 629,068 | 467,017 |
| Total current assets | <u>1,951,379</u> | <u>1,624,739</u> |
| Long Term Assets: | | |
| Loans | <u>5,546</u> | <u>-</u> |
| Total assets | \$ <u>1,956,925</u> | \$ <u>1,624,739</u> |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Payables: | | |
| Accounts | \$ 361,203 | \$ 336,032 |
| Compensation: | | |
| Salaries and wages | 129,159 | 115,108 |
| Employee benefits | 155 | 4,894 |
| Payroll taxes | 13,409 | 15,531 |
| Other deductions | 3,419 | 3,575 |
| Due to component units | 28,209 | 24,961 |
| Interfund | 2,952 | 721 |
| Accrued liabilities: | | |
| Grant disallowances | 564 | 5,643 |
| Medicaid | 42,309 | 48,130 |
| Tax refunds | 36,389 | 44,994 |
| Deferred revenue: | | |
| Property taxes | 76,466 | 83,139 |
| Other | 21,681 | 20,847 |
| Other current liabilities | <u>25,995</u> | <u>23,807</u> |
| Total liabilities | <u>741,910</u> | <u>727,382</u> |
| Fund Balance: | | |
| Reserved | 607,903 | 568,243 |
| Unreserved | <u>607,112</u> | <u>329,114</u> |
| Total fund balance | <u>1,215,015</u> | <u>897,357</u> |
| Total liabilities and fund balance | \$ <u>1,956,925</u> | \$ <u>1,624,739</u> |

See Accompanying Independent Auditors' Report

Exhibit A-2

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year Ended September 30, 2004
(With Comparative Totals for the Year Ended September 30, 2003)
(\$000s)

| | 2004 | 2003 |
|--|----------------------------|--------------------------|
| Revenues: | | |
| Taxes | \$ 3,804,572 | \$ 3,384,093 |
| Licenses and permits | 62,968 | 62,189 |
| Fines and forfeits | 102,828 | 90,238 |
| Charges for services: | | |
| Public | 102,957 | 107,970 |
| Intergovernmental | 18,795 | 13,056 |
| Interfund | 9,037 | 7,605 |
| Miscellaneous: | | |
| Public | 211,842 | 202,492 |
| Investment income | 12,016 | 3,948 |
| Intergovernmental: | | |
| Operating grants | 1,291 | 722 |
| Total revenues | <u>4,326,306</u> | <u>3,872,313</u> |
| Expenditures: | | |
| Current: | | |
| Governmental direction and support | 405,015 | 307,245 |
| Economic development and regulation | 145,453 | 135,753 |
| Public safety and justice | 747,769 | 656,934 |
| Public education system | 1,029,624 | 921,499 |
| Human support services | 1,119,360 | 1,249,091 |
| Public works | 152,580 | 151,191 |
| Public transportation | 162,602 | 154,531 |
| Debt service: | | |
| Principal | 146,761 | 141,041 |
| Interest | 152,720 | 135,593 |
| Fiscal charges | 13,721 | 15,338 |
| Total expenditures | <u>4,075,605</u> | <u>3,868,216</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>250,701</u> | <u>4,097</u> |
| Other Financing Sources (Uses): | | |
| Proceeds from sale of bonds | 10,057 | 251,345 |
| Payment to refunded bond escrow agent | - | (203,820) |
| Other charges | - | (30,359) |
| Proceeds from capital lease | 503 | - |
| Transfers in | 83,057 | 72,050 |
| Transfers out | (26,660) | (61,284) |
| Total other financing sources (uses) | <u>66,957</u> | <u>27,932</u> |
| EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | <u>317,658</u> | <u>32,029</u> |
| Fund Balance at October 1 | <u>897,357</u> | <u>865,328</u> |
| Fund Balance at September 30 | <u><u>\$ 1,215,015</u></u> | <u><u>\$ 897,357</u></u> |

See Accompanying Independent Auditors' Report

Exhibit A-3

GENERAL FUND
SCHEDULE OF EXPENDITURES AND NET FINANCING (SOURCES) USES
FUNCTION AND OBJECT --GAAP BASIS
Year Ended September 30, 2004
(With Comparative Totals for the Year Ended September 30, 2003)
(\$000s)

| Function and Subfunction | Personal Services | Contractual Services | Supplies | Occupancy | Miscel- laneous | Totals | |
|---|----------------------|-------------------------|----------|-----------|--------------------|--------------|--------------|
| | | | | | | 2004 | 2003 |
| Governmental Direction and Support: | | | | | | | |
| Legislative | \$ 12,573 | 1,018 | 94 | 278 | 66,838 | \$ 80,801 | \$ 13,668 |
| Executive | 48,380 | 28,247 | 302 | 4,069 | 5,910 | 86,908 | 86,928 |
| Finance | 55,159 | 18,653 | 558 | 9,362 | 66,151 | 149,883 | 142,625 |
| Personnel | 10,001 | 9,054 | 170 | 1,062 | 314 | 20,601 | 20,840 |
| Administrative | 27,039 | 13,302 | 565 | 18,871 | 1,319 | 61,096 | 38,494 |
| Elections | 3,346 | 1,382 | 60 | 375 | 563 | 5,726 | 4,690 |
| Total | 156,498 | 71,656 | 1,749 | 34,017 | 141,095 | 405,015 | 307,245 |
| Economic Development and Regulation: | | | | | | | |
| Community development | 11,072 | 15,376 | 259 | 2,606 | 27,343 | 56,656 | 44,485 |
| Economic regulation | 39,020 | 9,450 | 500 | 8,279 | 1,772 | 59,021 | 57,687 |
| Employment services | 8,510 | 3,180 | 118 | 7,802 | 10,166 | 29,776 | 33,581 |
| Total | 58,602 | 28,006 | 877 | 18,687 | 39,281 | 145,453 | 135,753 |
| Public Safety and Justice: | | | | | | | |
| Police | 305,189 | 41,886 | 5,926 | 10,500 | 77,261 | 440,762 | 397,564 |
| Fire | 129,241 | 5,552 | 3,503 | 3,215 | 33,231 | 174,742 | 150,917 |
| Corrections | 52,289 | 58,060 | 2,742 | 5,683 | 364 | 119,138 | 102,137 |
| Protection | 4,000 | 3,434 | 35 | 1,282 | 820 | 9,571 | 5,930 |
| Law | 2,058 | 319 | 23 | 182 | 692 | 3,274 | 93 |
| Judicial | 223 | 43 | 7 | 1 | 8 | 282 | 293 |
| Total | 493,000 | 109,294 | 12,236 | 20,863 | 112,376 | 747,769 | 656,934 |
| Public Education System: | | | | | | | |
| Schools | 518,913 | 65,061 | 19,528 | 36,092 | 349,132 | 988,726 | 888,120 |
| Culture | 22,114 | 3,469 | 370 | 2,441 | 12,504 | 40,898 | 33,379 |
| Total | 541,027 | 68,530 | 19,898 | 38,533 | 361,636 | 1,029,624 | 921,499 |
| Human Support Services: | | | | | | | |
| Health and welfare | 191,735 | 208,934 | 9,412 | 46,754 | 574,572 | 1,031,407 | 1,159,360 |
| Human relations | 2,928 | 3,845 | 47 | 133 | 12,442 | 19,395 | 18,593 |
| Employment benefits | 36,109 | - | - | - | - | 36,109 | 38,957 |
| Recreation | 22,765 | 4,358 | 795 | 3,426 | 1,105 | 32,449 | 32,181 |
| Total | 253,537 | 217,137 | 10,254 | 50,313 | 588,119 | 1,119,360 | 1,249,091 |
| Public Works | 71,821 | 50,504 | 3,285 | 12,340 | 14,630 | 152,580 | 151,191 |
| Public Transportation | - | - | - | - | 162,602 | 162,602 | 154,531 |
| Debt Service | - | - | - | - | 313,202 | 313,202 | 291,972 |
| Net Financing (Sources) Uses | - | - | - | - | (66,957) | (66,957) | (27,932) |
| Total expenditures and net sources | \$ 1,574,485 | 545,127 | 48,299 | 174,753 | 1,665,984 | \$ 4,008,648 | \$ 3,840,284 |

See Accompanying Independent Auditors' Report

Exhibit A-4

GENERAL FUND
SCHEDULE OF LOCAL SOURCE REVENUES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended September 30, 2004
(\$000s)

| Source | Budget | | Actual | Variance - Positive (Negative) |
|------------------------------------|---------------------|------------------|------------------|--------------------------------------|
| | Original | Revised | | |
| Taxes: | | | | |
| Property: | | | | |
| Real | \$ 920,723 | 895,270 | 947,690 | 52,420 |
| Personal | 65,362 | 69,733 | 63,558 | (6,175) |
| Public space rental | 13,383 | 11,834 | 16,728 | 4,894 |
| Total | 999,468 | 976,837 | 1,027,976 | 51,139 |
| Sales and use: | | | | |
| General | 677,911 | 691,132 | 671,017 | (20,115) |
| Alcoholic beverages | 4,432 | 4,495 | 5,090 | 595 |
| Cigarette | 24,270 | 21,884 | 20,765 | (1,119) |
| Motor vehicles | 32,164 | 38,914 | 40,437 | 1,523 |
| Total | 738,777 | 756,425 | 737,309 | (19,116) |
| Income and franchise: | | | | |
| Individual income | 947,537 | 979,510 | 1,042,309 | 62,799 |
| Corporation franchise | 157,908 | 147,284 | 168,353 | 21,069 |
| Unincorporated business | 70,974 | 80,900 | 88,347 | 7,447 |
| Total | 1,176,419 | 1,207,694 | 1,299,009 | 91,315 |
| Gross receipts: | | | | |
| Public utility | 156,164 | 167,544 | 169,494 | 1,950 |
| Toll telecommunication | 72,094 | 53,591 | 54,951 | 1,360 |
| Insurance companies | 34,400 | 44,500 | 47,452 | 2,952 |
| Total | 262,658 | 265,635 | 271,897 | 6,262 |
| Other: | | | | |
| Deed recordation | 87,448 | 120,124 | 164,522 | 44,398 |
| Deed transfers | 65,547 | 95,548 | 121,747 | 26,199 |
| Inheritance and estate | 42,459 | 33,172 | 26,466 | (6,706) |
| Economic interests | 596 | 15,782 | 16,269 | 487 |
| Total | 196,050 | 264,626 | 329,004 | 64,378 |
| Total taxes | 3,373,372 | 3,471,217 | 3,665,195 | 193,978 |
| Licenses and Permits: | | | | |
| Business licenses | 34,631 | 33,377 | 35,471 | 2,094 |
| Nonbusiness permits | 28,831 | 28,698 | 26,034 | (2,664) |
| Total | 63,462 | 62,075 | 61,505 | (570) |
| Fines and Forfeits | 100,439 | 86,299 | 99,478 | 13,179 |
| Charges for Services: | | | | |
| Right of way | - | - | 383 | 383 |
| Other | 51,421 | 50,953 | 53,322 | 2,369 |
| Total | 51,421 | 50,953 | 53,705 | 2,752 |
| Miscellaneous: | | | | |
| Interest | 14,541 | 13,001 | 7,890 | (5,111) |
| Other | 64,638 | 74,344 | 101,121 | 26,777 |
| Total | 79,179 | 87,345 | 109,011 | 21,666 |
| Total local source revenues | \$ 3,667,873 | 3,757,889 | 3,988,894 | 231,005 |

See Accompanying Independent Auditors' Report

Exhibit A-5

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES BY SOURCE OF FUNDS
Year Ended September 30, 2004
(\$000s)

| | Local Source | | | Other Source | | | Totals | | |
|---|--------------------|-------------------|----------------|----------------|--------------------|-------------------|----------------|-------------------|----------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Revised Budget | Variance |
| Revenues and Sources: | | | | | | | | | |
| Taxes | | | | | | | | | |
| Property | \$ 999,468 | 976,837 | 1,027,976 | 51,139 | - | - | - | 976,837 | 1,027,976 |
| Sales and uses | 738,777 | 756,425 | 737,309 | (19,116) | - | - | - | 756,425 | 737,309 |
| Income and franchise | 1,176,419 | 1,207,694 | 1,299,009 | 91,315 | - | - | - | 1,207,694 | 1,299,009 |
| Gross receipts and other taxes | 458,708 | 530,261 | 600,901 | 70,640 | - | - | - | 530,261 | 600,901 |
| Total taxes | 3,373,372 | 3,471,217 | 3,665,195 | 193,978 | - | - | - | 3,471,217 | 3,665,195 |
| Licenses and permits | 63,462 | 62,075 | 61,505 | (570) | - | - | - | 62,075 | 61,505 |
| Fines and forfeits | 100,439 | 86,299 | 99,478 | 13,179 | - | - | - | 86,299 | 99,478 |
| Charges for services | 51,421 | 50,953 | 53,705 | 2,752 | - | - | - | 50,953 | 53,705 |
| Miscellaneous | 79,179 | 87,345 | 109,011 | 21,666 | - | - | - | 87,345 | 109,011 |
| Other | - | - | - | - | 172,506 | 168,027 | 240,253 | 168,027 | 240,253 |
| Operating grants | - | - | 794 | 794 | - | - | - | - | 794 |
| Fund balance released from restrictions | 96,498 | 116,742 | 97,361 | (19,381) | 52,595 | 52,595 | 31,767 | 169,337 | 129,128 |
| Interfund transfer | 70,200 | 70,200 | 73,500 | 3,300 | - | - | - | 70,200 | 73,500 |
| Total Revenues and Sources | 3,834,571 | 3,944,831 | 4,160,549 | 215,718 | 225,101 | 220,622 | 272,020 | 4,163,453 | 4,432,569 |
| Expenditures and Uses: | | | | | | | | | |
| Governmental direction and support | 206,825 | 225,509 | 215,030 | 10,479 | 20,150 | 21,130 | 16,334 | 226,975 | 231,364 |
| Economic development and regulation | 53,336 | 63,556 | 61,717 | 1,839 | 132,109 | 125,719 | 87,232 | 185,445 | 148,949 |
| Public safety and justice | 716,715 | 741,296 | 727,709 | 13,587 | 18,944 | 22,890 | 18,357 | 735,659 | 746,066 |
| Public education system | 962,941 | 970,917 | 968,784 | 2,133 | 7,640 | 8,445 | 7,211 | 970,581 | 975,995 |
| Public school AY05 expenditure | - | 53,198 | 53,198 | - | - | - | - | - | 53,198 |
| Human support services | 1,085,277 | 1,107,665 | 1,099,127 | 8,538 | 24,330 | 24,463 | 17,908 | 1,132,128 | 1,117,035 |
| Public works | 308,028 | 307,274 | 303,472 | 3,802 | 13,744 | 15,149 | 11,148 | 321,772 | 314,620 |
| Workforce investments | 22,308 | 1,240 | - | 1,240 | - | - | - | 22,308 | 1,240 |
| Wilson building | 3,704 | 3,704 | 3,518 | 186 | - | - | - | 3,704 | 3,518 |
| Repay bonds and interest | 311,504 | 303,500 | 303,397 | 103 | - | - | - | 311,504 | 303,397 |
| Interest on short term borrowing | 3,000 | 2,904 | 2,570 | 334 | - | - | - | 2,904 | 2,570 |
| Certificates of participation | 4,911 | 4,911 | 4,752 | 159 | - | - | - | 3,000 | 2,570 |
| Settlements and judgments fund | 22,522 | 21,922 | 18,890 | 3,032 | - | - | - | 22,522 | 18,890 |
| One-time expenditures | 11,267 | 1,107 | - | 1,107 | - | - | - | 11,267 | 1,107 |
| Tax increment financing | 1,940 | 1,940 | 1,940 | - | - | - | - | 1,940 | 1,940 |
| Grant disallowance | 57,000 | 65,896 | 65,896 | - | - | - | - | 57,000 | 65,896 |
| Cash reserve | 50,000 | 302 | - | 302 | - | - | - | 50,000 | 302 |
| Non-departmental agency | 11,455 | 1,722 | - | 1,722 | 8,184 | 2,826 | - | 19,639 | 4,548 |
| Total Expenditures and Uses | 3,832,733 | 3,878,563 | 3,830,000 | 48,563 | 225,101 | 220,622 | 158,190 | 4,057,834 | 3,988,190 |
| Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses | \$ 1,838 | 66,268 | 330,549 | 264,281 | - | - | 113,830 | 66,268 | 378,111 |

See Accompanying Independent Auditors' Report

Exhibit A-6

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES
Year Ended September 30, 2004
(\$000s)

| | Original Budget | Revisions | Revised Budget | Actual | Variance (Actual To Original Budget) |
|---|----------------------------|------------------|---------------------------|----------------|---|
| Revenues and Sources: | | | | | |
| Taxes: | | | | | |
| Property | \$ 999,468 | (22,631) | 976,837 | 1,027,976 | 28,508 |
| Sales and use | 738,777 | 17,648 | 756,425 | 737,309 | (1,468) |
| Income and franchise | 1,176,419 | 31,275 | 1,207,694 | 1,299,009 | 122,590 |
| Other taxes | 458,708 | 71,553 | 530,261 | 600,901 | 142,193 |
| Total taxes | 3,373,372 | 97,845 | 3,471,217 | 3,665,195 | 291,823 |
| Licenses and permits | 63,462 | (1,387) | 62,075 | 61,505 | (1,957) |
| Fines and forfeits | 100,439 | (14,140) | 86,299 | 99,478 | (961) |
| Charges for services | 51,421 | (468) | 50,953 | 53,705 | 2,284 |
| Miscellaneous | 79,179 | 8,166 | 87,345 | 109,011 | 29,832 |
| Other | 172,506 | (4,479) | 168,027 | 240,253 | 67,747 |
| Operating grants | - | - | - | 794 | 794 |
| Fund balance released from restriction | 149,093 | 20,244 | 169,337 | 129,128 | (19,965) |
| Interfund transfer | 70,200 | - | 70,200 | 73,500 | 3,300 |
| Total Revenues and Sources | 4,059,672 | 105,781 | 4,165,453 | 4,432,569 | 372,897 |
| Expenditures and Uses: | | | | | |
| Governmental direction and support | 226,975 | 19,664 | 246,639 | 231,364 | (4,389) |
| Economic development and regulation | 185,445 | 3,830 | 189,275 | 148,949 | 36,496 |
| Public safety and justice | 735,659 | 28,527 | 764,186 | 746,066 | (10,407) |
| Public education system | 970,581 | 8,781 | 979,362 | 975,995 | (5,414) |
| Public school AY05 expenditure | - | 53,198 | 53,198 | 53,198 | (53,198) |
| Human support services | 1,109,607 | 22,521 | 1,132,128 | 1,117,035 | (7,428) |
| Public works | 321,772 | 651 | 322,423 | 314,620 | 7,152 |
| Workforce investments | 22,308 | (21,068) | 1,240 | - | 22,308 |
| Wilson building | 3,704 | - | 3,704 | 3,518 | 186 |
| Repay bonds and interest | 311,504 | (8,004) | 303,500 | 303,397 | 8,107 |
| Interest on short term borrowing | 3,000 | (96) | 2,904 | 2,570 | 430 |
| Certificates of participation | 4,911 | - | 4,911 | 4,752 | 159 |
| Settlements and judgments fund | 22,522 | (600) | 21,922 | 18,890 | 3,632 |
| One-time expenditures | 11,267 | (10,160) | 1,107 | - | 11,267 |
| Tax increment financing | 1,940 | - | 1,940 | 1,940 | - |
| Grant disallowance | 57,000 | 8,896 | 65,896 | 65,896 | (8,896) |
| Cash reserve | 50,000 | (49,698) | 302 | - | 50,000 |
| Non-departmental agency | 19,639 | (15,091) | 4,548 | - | 19,639 |
| Total Expenditures and Uses | 4,057,834 | 41,351 | 4,099,185 | 3,988,190 | 69,644 |
| Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses | | | | | |
| | \$ <u>1,838</u> | <u>64,430</u> | <u>66,268</u> | <u>444,379</u> | <u>442,541</u> |

See Accompanying Independent Auditors' Report

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The **Tax Increment Financing (TIF) Program Fund** is used to account for activities relating to various TIF development initiatives.

The **Tobacco Settlement Financing Corporation (TSFC) Fund** is used to account for the tobacco litigation settlement activities of the District of Columbia.

Capital Projects Fund

The **Highway Trust Fund** is used to account for the motor vehicle fuel taxes and other fees collected and used by the District for highway projects.

Exhibit B-1

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2004
(With Comparative Totals at September 30, 2003)
(\$000s)

| | Tax Increment Financing Program | Tobacco Settlement Financing Corporation | Highway Trust | Totals | |
|---|---------------------------------------|---|------------------|-------------------|-------------------|
| | | | | 2004 | 2003 |
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ - | \$ 617 | \$ 6,085 | \$ 6,702 | \$ 21,616 |
| Investments | 8,615 | - | - | 8,615 | - |
| Receivables (net of allowances for uncollectibles): | | | | | |
| Taxes | - | - | 3,186 | 3,186 | - |
| Accounts | 8 | 28,650 | 16 | 28,674 | 3,113 |
| Interfund | - | - | 707 | 707 | - |
| Accrued interest | - | 19 | - | 19 | 14 |
| Restricted cash and cash equivalents | 1 | 61,842 | 21,199 | 83,042 | 108,005 |
| Total assets | <u>\$ 8,624</u> | <u>\$ 91,128</u> | <u>\$ 31,193</u> | <u>\$ 130,945</u> | <u>\$ 132,748</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| Current Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | \$ - | \$ - | \$ 8,732 | \$ 8,732 | \$ 90 |
| Compensation payable | - | - | 12 | 12 | - |
| Deferred revenue | - | - | 1,815 | 1,815 | - |
| Accrued liabilities | - | 68 | - | 68 | 113 |
| Due to other funds | - | - | - | - | 8,207 |
| Total liabilities | <u>-</u> | <u>68</u> | <u>10,559</u> | <u>10,627</u> | <u>8,410</u> |
| Fund Balance: | | | | | |
| Reserved | 8,624 | 91,060 | 20,634 | 120,318 | 124,338 |
| Unreserved | - | - | - | - | - |
| Total fund balances | <u>8,624</u> | <u>91,060</u> | <u>20,634</u> | <u>120,318</u> | <u>124,338</u> |
| Total liabilities and fund balances | <u>\$ 8,624</u> | <u>\$ 91,128</u> | <u>\$ 31,193</u> | <u>\$ 130,945</u> | <u>\$ 132,748</u> |

See Accompanying Independent Auditors' Report.

Exhibit B-2

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year Ended September 30, 2004**

(With Comparative Totals for the Year Ended September 30, 2003)

(\$000s)

| | Tax Increment Financing Program | Tobacco Settlement Financing Corporation | Highway Trust | Totals | |
|--|---------------------------------------|---|------------------|------------|------------|
| | | | | 2004 | 2003 |
| Revenues: | | | | | |
| Interest | \$ 68 | \$ 2,348 | \$ 273 | \$ 2,689 | \$ 3,073 |
| Other | 2,335 | 38,287 | 18 | 40,640 | 41,283 |
| Total revenues | 2,403 | 40,635 | 291 | 43,329 | 44,356 |
| Expenditures | | | | | |
| Current: | | | | | |
| Governmental direction and support | - | 194 | - | 194 | 197 |
| Capital outlay | - | - | 31,441 | 31,441 | 8,751 |
| Bond principal payment | 1,515 | 3,810 | - | 5,325 | 56,942 |
| Other | 72 | - | - | 72 | - |
| Interest | 4,265 | 32,712 | - | 36,977 | 42,708 |
| Total expenditures | 5,852 | 36,716 | 31,441 | 74,009 | 108,598 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (3,449) | 3,919 | (31,150) | (30,680) | (64,242) |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | - | - | 26,660 | 26,660 | 26,808 |
| Transfers out | - | (9,557) | - | (9,557) | (26,510) |
| Proceeds from bond escrow restructuring | - | 9,557 | - | 9,557 | - |
| Total other financing sources (uses) | - | - | 26,660 | 26,660 | 298 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES | (3,449) | 3,919 | (4,490) | (4,020) | (63,944) |
| Fund Balances at October 1, as restated | 12,073 | 87,141 | 25,124 | 124,338 | 188,282 |
| Fund Balances at September 30 | \$ 8,624 | \$ 91,060 | \$ 20,634 | \$ 120,318 | \$ 124,338 |

See Accompanying Independent Auditors' Report.

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FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the District in a trustee or agency capacity. These assets cannot be used to support the District's programs. The District has the following Fiduciary Funds:

The **Pension Trust Funds** are used to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future for police officers, fire fighters and public school teachers of the District. Resources are contributed by employees and by the District and federal governments at amounts determined by an annual actuarial study. The funds are administered by a thirteen member Retirement Board. Three of these members are appointed by the Mayor and three by the Council. The other members include one each active and retired police officers, fire fighters, and teachers. The administrative costs of the board are accounted for in the funds.

The **Private Purpose Trust Fund** is used to account for the District's sponsored college tuition savings plan.

The **Agency Funds** are used to account for refundable deposits required of various licensees, monies held in escrow as an agent for individuals, private organizations or other governments.

Exhibit C-1

PENSION TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
September 30, 2004
(With Comparative Totals at September 30, 2003)
(\$000s)

| | | | Totals | |
|--|------------------------|-------------------|---------------------|---------------------|
| | Police and Fire | Teachers | 2004 | 2003 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents - restricted | \$ 179,984 | \$ 110,784 | \$ 290,768 | \$ 386,853 |
| Investments - restricted | 1,646,225 | 1,013,285 | 2,659,510 | 2,012,544 |
| Receivables: | | | | |
| Accounts | - | - | - | - |
| Benefit contribution | 1,564 | - | 1,564 | 2,860 |
| Other current assets | - | 1,816 | 1,816 | - |
| Due from other funds | - | - | - | 46 |
| Total assets | 1,827,773 | 1,125,885 | 2,953,658 | 2,402,303 |
| LIABILITIES AND FUND BALANCES | | | | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts | 8,681 | 9,265 | 17,946 | 12,325 |
| Securities lending | 199,633 | 122,064 | 321,697 | 169,034 |
| Due to primary government | 433 | 267 | 700 | 741 |
| Total liabilities | 208,747 | 131,596 | 340,343 | 182,100 |
| Net Assets | | | | |
| Restricted for pension benefits | 1,619,026 | 994,289 | 2,613,315 | 2,220,203 |
| Total net assets | \$ 1,619,026 | \$ 994,289 | \$ 2,613,315 | \$ 2,220,203 |

See Accompanying Independent Auditors' Report.

Exhibit C-2

PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended September 30, 2004
(With Comparative Totals for the Year Ended September 30, 2003)
(\$000s)

| | Police and Fire | Teachers | Totals | |
|---|-----------------|----------------|----------------|----------------|
| | | | 2004 | 2003 |
| Additions: | | | | |
| Benefit contributions: | | | | |
| Employer | \$ 96,700 | \$ - | \$ 96,700 | \$ 68,900 |
| Plan members | 20,847 | 26,283 | 47,130 | 45,914 |
| Investment income: | | | | |
| Interest and dividends | 41,696 | 25,580 | 67,276 | 55,321 |
| Net appreciation in fair value of investments | 129,427 | 80,836 | 210,263 | 253,498 |
| Less - investment expenses | (5,749) | (3,526) | (9,275) | (6,703) |
| Total additions | 282,921 | 129,173 | 412,094 | 416,930 |
| Deductions: | | | | |
| Administrative expenses | 1,537 | 942 | 2,479 | 2,479 |
| Benefit payments | 7,903 | 8,600 | 16,503 | 11,191 |
| Total deductions | 9,440 | 9,542 | 18,982 | 13,670 |
| Change in net assets | 273,481 | 119,631 | 393,112 | 403,260 |
| Net assets held in trust for pension benefits: | | | | |
| October 1 | 1,345,545 | 874,658 | 2,220,203 | 1,816,943 |
| September 30 | \$ 1,619,026 | 994,289 | 2,613,315 | 2,220,203 |

See Accompanying Independent Auditors' Report.

Exhibit C-3

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended September 30, 2004
(\$000s)

| | Balance | | | Balance |
|--|-------------------|------------------|-------------------|---------------------|
| | October 1 | | | September 30 |
| | 2003 | Additions | Deductions | 2004 |
| ASSETS | | | | |
| Cash and cash equivalents - restricted | \$ 106,937 | 756,307 | 747,374 | 115,870 |
| Due from other funds | - | 1,401 | - | 1,401 |
| Other receivables | 901 | 186 | - | 1,087 |
| Total assets | \$ 107,838 | 757,894 | 747,374 | 118,358 |
| LIABILITIES | | | | |
| Accounts payable | \$ 11,758 | 101,131 | 102,765 | 10,124 |
| Due to other fund | 46 | - | 46 | - |
| Other current liabilities | 96,034 | 204,937 | 192,737 | 108,234 |
| Total liabilities | \$ 107,838 | 306,068 | 295,548 | 118,358 |

The accompanying notes are an integral part of this statement.

SUPPORTING SCHEDULES

Supporting schedules are financial presentations used to aggregate and present in greater detail information contained in the financial statements and to present additional information not disclosed in the basic financial statements.

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES
Year Ended September 30, 2004
(\$000s)

| | | Budget | | Actual | Variance |
|--|----|-----------|-----------|-----------|----------|
| | | Original | Revised | | |
| Governmental direction and support: | | | | | |
| City Council | \$ | 12,161 | 12,414 | 11,819 | 595 |
| DC Auditor | | 1,541 | 1,562 | 1,555 | 7 |
| Advisory neighborhood commissions | | 880 | 881 | 779 | 102 |
| Mayor | | 7,904 | 10,354 | 7,991 | 2,363 |
| Executive secretary | | 2,768 | 3,346 | 2,692 | 654 |
| Citywide call center | | 2,406 | 2,455 | 2,285 | 170 |
| City administrator | | 37,638 | 182,901 | 44,917 | 137,984 |
| Risk management | | 1,565 | 1,995 | 1,801 | 194 |
| Personnel | | 9,748 | 9,487 | 8,535 | 952 |
| Human resource development | | 1,024 | 2,134 | 2,025 | 109 |
| Finance and resource management | | 2,565 | 4,582 | 4,233 | 349 |
| Contracts and procurement | | 11,789 | 12,171 | 11,868 | 303 |
| Chief technology officer | | 15,799 | 30,408 | 28,518 | 1,890 |
| Property management | | 15,334 | 18,932 | 14,258 | 4,674 |
| Contract appeals | | 756 | 761 | 716 | 45 |
| Elections and ethics | | 4,816 | 7,262 | 6,485 | 777 |
| Campaign finance | | 1,338 | 1,364 | 1,279 | 85 |
| Public employee relations | | 686 | 692 | 653 | 39 |
| Employee appeals | | 1,501 | 1,531 | 1,445 | 86 |
| Council of governments | | 422 | 422 | 422 | - |
| Corporation counsel | | 50,109 | 51,506 | 47,438 | 4,068 |
| Inspector general | | 11,294 | 11,447 | 9,748 | 1,699 |
| Chief financial officer | | 83,166 | 88,208 | 87,249 | 959 |
| Total governmental direction and support | | 277,210 | 456,815 | 298,711 | 158,104 |
| Economic development and regulation: | | | | | |
| Business services and economic development | | 28,124 | 34,995 | 32,025 | 2,970 |
| Office of planning | | 6,646 | 6,946 | 6,634 | 312 |
| Local business development | | 1,129 | 1,141 | 1,002 | 139 |
| Motion picture and television development | | 569 | 574 | 515 | 59 |
| Office of zoning | | 2,553 | 2,580 | 2,464 | 116 |
| Housing and community development | | 93,532 | 126,822 | 59,587 | 67,235 |
| Alcoholic beverage regulation administration | | 3,526 | 5,186 | 3,648 | 1,538 |
| Employment services | | 81,166 | 91,301 | 75,442 | 15,859 |
| Appeals and review | | 69 | 74 | 74 | - |
| Real property assessment and appeals | | 346 | 351 | 336 | 15 |
| Consumer and regulatory affairs | | 30,849 | 32,189 | 30,837 | 1,352 |
| Office of banks and financial institutions | | 2,646 | 21,379 | 2,137 | 19,242 |
| Public services commission | | 6,971 | 6,971 | 6,634 | 337 |
| Office of people's counsel | | 4,178 | 4,243 | 4,192 | 51 |
| Insurance regulation | | 10,244 | 10,709 | 9,706 | 1,003 |
| Office of cable TV | | 4,098 | 5,013 | 4,485 | 528 |
| Total economic development and regulation | | 276,646 | 350,474 | 239,718 | 110,756 |
| Public safety and justice: | | | | | |
| Police | | 373,189 | 390,661 | 375,708 | 14,953 |
| Fire and emergency medical services | | 153,097 | 151,981 | 149,058 | 2,923 |
| Police and firefighter retirement contribution | | 96,200 | 96,700 | 96,700 | - |
| Corrections | | 100,835 | 118,638 | 117,672 | 966 |
| National guard | | 3,413 | 3,437 | 2,722 | 715 |
| Emergency preparedness | | 5,412 | 15,010 | 13,332 | 1,678 |
| Judicial disabilities and tenure | | 193 | 197 | 177 | 20 |
| Judicial nomination | | 110 | 117 | 106 | 11 |
| Citizen complaint review board | | 1,481 | 1,500 | 1,444 | 56 |
| Advisory commission on sentencing | | 634 | 646 | 606 | 40 |
| Office of the chief medical examiner | | 6,539 | 6,444 | 5,891 | 553 |
| Office of administrative hearings | | 4,112 | 3,591 | 3,275 | 316 |
| Corrections information council | | 170 | 83 | 46 | 37 |
| Criminal justice coordinating council | | 1,562 | 1,565 | 835 | 730 |
| Forensic health and science laboratory | | 800 | 800 | 754 | 46 |
| Emergency and disaster | | - | 734 | 734 | - |
| Total public safety and justice | | 747,747 | 792,104 | 769,060 | 23,044 |
| Public education system: | | | | | |
| Public schools | | 880,716 | 940,803 | 897,793 | 43,010 |
| AY05 public school expenditure | | - | 6,662 | 6,662 | - |
| State education office | | 57,640 | 80,410 | 77,178 | 3,232 |
| Public charter schools | | 150,454 | 117,807 | 117,501 | 306 |
| AY05 public charter school expenditure | | - | 46,456 | 46,456 | - |
| University | | 48,656 | 50,782 | 50,781 | 1 |
| AY05 university expenditure | | - | 80 | 80 | - |
| Public library | | 28,287 | 28,803 | 27,990 | 813 |
| Arts and humanities | | 2,476 | 2,928 | 2,876 | 52 |
| Total public education system | | 1,168,229 | 1,274,731 | 1,227,317 | 47,414 |

(Continued)

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES

Year Ended September 30, 2004
(\$000s)

| | Budget | | Actual | Variance |
|---|---------------------|------------------|------------------|----------------|
| | Original | Revised | | |
| Human support services: | | | | |
| Human development | \$ 395,363 | 437,935 | 429,102 | 8,833 |
| Child and family services | 175,045 | 181,322 | 172,793 | 8,529 |
| Dept of mental health | 141,722 | 152,754 | 148,079 | 4,675 |
| Health | 1,494,663 | 1,584,013 | 1,554,713 | 29,300 |
| Recreation and parks | 33,764 | 36,080 | 34,302 | 1,778 |
| Aging | 20,422 | 23,098 | 21,253 | 1,845 |
| Unemployment compensation contribution | 8,124 | 6,824 | 5,498 | 1,326 |
| Employee disability compensation | 27,959 | 30,675 | 30,611 | 64 |
| Human rights | 1,891 | 2,808 | 2,566 | 242 |
| Children investment trust | 345 | 4,959 | 4,868 | 91 |
| Commission for women | 2,768 | 341 | 341 | - |
| Latino affairs | 3,188 | 3,624 | 3,445 | 179 |
| Energy | 20,256 | 12,954 | 12,611 | 343 |
| Asian and pacific islander affairs | - | 351 | 319 | 32 |
| Veterans' affairs | 235 | 237 | 232 | 5 |
| Medical reserve | 55,054 | 44,096 | 44,096 | - |
| Incentives for adoption of children | - | 1 | 1 | - |
| Total human support services | 2,380,799 | 2,522,072 | 2,464,830 | 57,242 |
| Public works: | | | | |
| Public works | 93,709 | 99,716 | 98,280 | 1,436 |
| Department of transportation | 31,797 | 43,512 | 26,006 | 17,506 |
| Department of motor vehicles | 39,228 | 39,169 | 33,690 | 5,479 |
| Taxicab commission | 1,388 | 1,403 | 1,221 | 182 |
| Washington metropolitan area transit commission | 92 | 92 | 92 | - |
| Washington metropolitan area transit authority | 165,632 | 163,147 | 162,601 | 546 |
| School transit subsidy | 3,650 | 4,450 | 4,309 | 141 |
| Total public works | 335,496 | 351,489 | 326,199 | 25,290 |
| Other: | | | | |
| Repayment of bonds and interest | 311,504 | 303,500 | 303,397 | 103 |
| Interest on short term borrowing | 3,000 | 2,904 | 2,570 | 334 |
| Certificates of participation | 4,911 | 4,911 | 4,752 | 159 |
| Settlements and judgments | 22,522 | 21,922 | 18,890 | 3,032 |
| Emergency planning and security costs | 10,935 | 10,289 | 10,289 | - |
| Wilson Building | 3,704 | 3,704 | 3,518 | 186 |
| Workforce investment | 22,308 | 1,240 | - | 1,240 |
| One-time expenditures | 11,267 | 1,107 | - | 1,107 |
| Tax increment financing | 1,940 | 1,940 | 1,940 | - |
| Grant disallowance | 57,000 | 65,896 | 65,896 | - |
| Cash reserve | 50,000 | 302 | - | 302 |
| Non-departmental agency | 19,639 | 4,548 | - | 4,548 |
| Water and sewer authority | 259,095 | - | - | - |
| Washington aqueduct | 55,553 | - | - | - |
| Lottery and games | 242,755 | - | - | - |
| Storm water | 3,501 | 3,501 | 2,031 | 1,470 |
| Sports commission | 13,979 | - | - | - |
| Retirement board administration | 13,895 | 13,895 | 9,037 | 4,858 |
| Washington convention center operations | 69,742 | - | - | - |
| Housing finance agency | 6,089 | 6,089 | - | 6,089 |
| National capital revitalization corporation | 7,849 | 7,849 | - | 7,849 |
| Total other | 1,191,188 | 453,597 | 422,320 | 31,277 |
| Total budget | \$ 6,377,315 | 6,201,282 | 5,748,155 | 453,127 |

See Accompanying Independent Auditors' Report.

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2004
(\$000s)

| | Local Source | | | | Federal Source | | | |
|--|-----------------|----------------|----------------|---------------|-----------------|----------------|---------------|----------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Governmental direction and support: | | | | | | | | |
| City Council | \$ 12,161 | 12,414 | 11,819 | 595 | - | - | - | - |
| DC Auditor | 1,541 | 1,562 | 1,555 | 7 | - | - | - | - |
| Advisory neighborhood commissions | 880 | 881 | 779 | 102 | - | - | - | - |
| Mayor | 6,046 | 6,245 | 6,166 | 79 | 1,858 | 3,983 | 1,719 | 2,264 |
| Executive secretary | 2,402 | 2,945 | 2,404 | 541 | - | - | - | - |
| Citywide call center | 2,406 | 2,455 | 2,285 | 170 | - | - | - | - |
| City administrator | 7,711 | 7,837 | 6,627 | 1,210 | 29,927 | 175,064 | 38,290 | 136,774 |
| Risk management | 1,565 | 1,995 | 1,801 | 194 | - | - | - | - |
| Personnel | 8,990 | 9,201 | 8,340 | 861 | - | - | - | - |
| Human resource development | 1,024 | 1,040 | 931 | 109 | - | 1,094 | 1,094 | - |
| Finance and resource management | 1,900 | 3,627 | 3,603 | 24 | - | - | - | - |
| Contracts and procurement | 11,789 | 12,078 | 11,778 | 300 | - | - | - | - |
| Chief technology officer | 15,799 | 23,957 | 22,988 | 969 | - | 6,451 | 5,530 | 921 |
| Property management | 11,534 | 13,514 | 11,303 | 2,211 | - | 1,618 | 1,418 | 200 |
| Contract appeals | 756 | 761 | 716 | 45 | - | - | - | - |
| Elections and ethics | 4,816 | 4,873 | 4,447 | 426 | - | 2,389 | 2,038 | 351 |
| Campaign finance | 1,338 | 1,364 | 1,279 | 85 | - | - | - | - |
| Public employee relations | 686 | 692 | 653 | 39 | - | - | - | - |
| Employee appeals | 1,501 | 1,531 | 1,445 | 86 | - | - | - | - |
| Council of governments | 422 | 422 | 422 | - | - | - | - | - |
| Corporation counsel | 28,725 | 30,122 | 29,460 | 662 | 15,468 | 15,468 | 13,934 | 1,534 |
| Inspector general | 10,039 | 10,192 | 8,705 | 1,487 | 1,255 | 1,255 | 1,043 | 212 |
| Chief financial officer | 72,794 | 75,801 | 75,524 | 277 | 1,727 | 2,693 | 2,147 | 546 |
| Total governmental direction and support | 206,825 | 225,509 | 215,030 | 10,479 | 50,235 | 210,015 | 67,213 | 142,802 |
| Economic development and regulation: | | | | | | | | |
| Business services and economic development | 4,308 | 10,850 | 10,095 | 755 | - | 329 | 329 | - |
| Office of planning | 6,196 | 6,260 | 6,106 | 154 | 450 | 571 | 458 | 113 |
| Local business development | 1,129 | 1,141 | 1,002 | 139 | - | - | - | - |
| Motion picture and television development | 569 | 574 | 515 | 59 | - | - | - | - |
| Office of zoning | 2,553 | 2,580 | 2,464 | 116 | - | - | - | - |
| Housing and community development | 4,086 | 4,095 | 4,025 | 70 | 41,260 | 81,685 | 42,999 | 38,686 |
| Alcoholic beverage regulation administration | - | - | - | - | - | 1,660 | 653 | 1,007 |
| Employment services | 10,154 | 13,321 | 12,847 | 474 | 49,241 | 57,673 | 45,503 | 12,170 |
| Appeals and review | 69 | 74 | 74 | - | - | - | - | - |
| Real property assessment and appeals | 346 | 351 | 336 | 15 | - | - | - | - |
| Consumer and regulatory affairs | 23,726 | 24,110 | 24,053 | 57 | - | 118 | 81 | 37 |
| Office of banks and financial institutions | 200 | 200 | 200 | - | - | 18,733 | 455 | 18,278 |
| Public services commission | - | - | - | - | 125 | 125 | 78 | 47 |
| Office of people's counsel | - | - | - | - | - | - | - | - |
| Insurance regulation | - | - | - | - | - | - | - | - |
| Office of cable TV | - | - | - | - | - | - | - | - |
| Total economic development and regulation | 53,336 | 63,556 | 61,717 | 1,839 | 91,076 | 160,894 | 90,556 | 70,338 |
| Public safety and justice: | | | | | | | | |
| Police | 348,000 | 353,513 | 345,029 | 8,484 | 7,220 | 15,210 | 13,057 | 2,153 |
| Fire and emergency medical services | 153,088 | 151,320 | 148,503 | 2,817 | - | 652 | 555 | 97 |
| Police and firefighter retirement contribution | 96,200 | 96,700 | 96,700 | - | - | - | - | - |
| Corrections | 100,155 | 117,825 | 116,895 | 930 | - | 133 | 133 | - |
| National guard | 2,261 | 2,285 | 1,934 | 351 | 1,152 | 1,152 | 788 | 364 |
| Emergency preparedness | 2,997 | 5,563 | 5,460 | 103 | 2,415 | 9,447 | 7,872 | 1,575 |
| Judicial disabilities and tenure | 193 | 197 | 177 | 20 | - | - | - | - |
| Judicial nomination | 110 | 117 | 106 | 11 | - | - | - | - |
| Citizen complaint review board | 1,481 | 1,500 | 1,444 | 56 | - | - | - | - |
| Advisory commission on sentencing | 634 | 646 | 606 | 40 | - | - | - | - |
| Office of the Chief Medical Examiner | 6,427 | 6,332 | 5,780 | 552 | - | - | - | - |
| Office of administrative hearings | 3,929 | 3,408 | 3,275 | 133 | - | - | - | - |
| Corrections information council | 170 | 83 | 46 | 37 | - | - | - | - |
| Criminal justice coordinating council | 270 | 273 | 266 | 7 | 1,292 | 1,292 | 569 | 723 |
| Forensic health and science laboratory | 800 | 800 | 754 | 46 | - | - | - | - |
| Emergency and disaster | - | 734 | 734 | - | - | - | - | - |
| Total public safety and justice | 716,715 | 741,296 | 727,709 | 13,587 | 12,079 | 27,886 | 22,974 | 4,912 |

(Continued)

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2004
(\$000s)

| | Private Grants | | | | Other Source | | | |
|--|--------------------|-------------------|------------|-----------|--------------------|-------------------|---------------|---------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Governmental direction and support: | | | | | | | | |
| City Council | \$ - | - | - | - | - | - | - | - |
| DC Auditor | - | - | - | - | - | - | - | - |
| Advisory neighborhood commissions | - | - | - | - | - | - | - | - |
| Mayor | - | 126 | 106 | 20 | - | - | - | - |
| Executive secretary | - | 35 | 28 | 7 | 366 | 366 | 260 | 106 |
| Citywide call center | - | - | - | - | - | - | - | - |
| City administrator | - | - | - | - | - | - | - | - |
| Risk management | - | - | - | - | - | - | - | - |
| Personnel | - | - | - | - | 758 | 286 | 195 | 91 |
| Human resource development | - | - | - | - | - | - | - | - |
| Finance and resource management | - | - | - | - | 665 | 955 | 630 | 325 |
| Contracts and procurement | - | - | - | - | - | 93 | 90 | 3 |
| Chief technology officer | - | - | - | - | - | - | - | - |
| Property management | - | - | - | - | 3,800 | 3,800 | 1,537 | 2,263 |
| Contract appeals | - | - | - | - | - | - | - | - |
| Elections and ethics | - | - | - | - | - | - | - | - |
| Campaign finance | - | - | - | - | - | - | - | - |
| Public employee relations | - | - | - | - | - | - | - | - |
| Employee appeals | - | - | - | - | - | - | - | - |
| Council of governments | - | - | - | - | - | - | - | - |
| Corporation counsel | - | - | - | - | 5,916 | 5,916 | 4,044 | 1,872 |
| Inspector general | - | - | - | - | - | - | - | - |
| Chief financial officer | - | - | - | - | 8,645 | 9,714 | 9,578 | 136 |
| Total governmental direction and support | - | 161 | 134 | 27 | 20,150 | 21,130 | 16,334 | 4,796 |
| Economic development and regulation: | | | | | | | | |
| Business services and economic development | - | - | - | - | 23,816 | 23,816 | 21,601 | 2,215 |
| Office of planning | - | 115 | 70 | 45 | - | - | - | - |
| Local business development | - | - | - | - | - | - | - | - |
| Motion picture and television development | - | - | - | - | - | - | - | - |
| Office of zoning | - | - | - | - | - | - | - | - |
| Housing and community development | - | - | - | - | 48,186 | 41,042 | 12,563 | 28,479 |
| Alcoholic beverage regulation administration | - | - | - | - | 3,526 | 3,526 | 2,995 | 531 |
| Employment services | - | 65 | 65 | - | 21,771 | 20,242 | 17,027 | 3,215 |
| Appeals and review | - | - | - | - | - | - | - | - |
| Real property assessment and appeals | - | - | - | - | - | - | - | - |
| Consumer and regulatory affairs | - | - | - | - | 7,123 | 7,961 | 6,703 | 1,258 |
| Office of banks and financial institutions | - | - | - | - | 2,446 | 2,446 | 1,482 | 964 |
| Public services commission | 125 | 125 | 78 | 47 | 6,721 | 6,721 | 6,478 | 243 |
| Office of people's counsel | - | - | - | - | 4,178 | 4,243 | 4,192 | 51 |
| Insurance regulation | - | - | - | - | 10,244 | 10,709 | 9,706 | 1,003 |
| Office of cable TV | - | - | - | - | 4,098 | 5,013 | 4,485 | 528 |
| Total economic development and regulation | 125 | 305 | 213 | 92 | 132,109 | 125,719 | 87,232 | 38,487 |
| Public safety and justice: | | | | | | | | |
| Police | - | 23 | 20 | 3 | 17,969 | 21,915 | 17,602 | 4,313 |
| Fire and emergency medical services | 9 | 9 | - | 9 | - | - | - | - |
| Police and firefighter retirement contribution | - | - | - | - | - | - | - | - |
| Corrections | - | - | - | - | 680 | 680 | 644 | 36 |
| National guard | - | - | - | - | - | - | - | - |
| Emergency preparedness | - | - | - | - | - | - | - | - |
| Judicial disabilities and tenure | - | - | - | - | - | - | - | - |
| Judicial nomination | - | - | - | - | - | - | - | - |
| Citizen complaint review board | - | - | - | - | - | - | - | - |
| Advisory commission on sentencing | - | - | - | - | - | - | - | - |
| Office of the Chief Medical Examiner | - | - | - | - | 112 | 112 | 111 | 1 |
| Office of administrative hearings | - | - | - | - | 183 | 183 | - | 183 |
| Corrections information council | - | - | - | - | - | - | - | - |
| Criminal justice coordinating council | - | - | - | - | - | - | - | - |
| Forensic health and science laboratory | - | - | - | - | - | - | - | - |
| Emergency and disaster | - | - | - | - | - | - | - | - |
| Total public safety and justice | 9 | 32 | 20 | 12 | 18,944 | 22,890 | 18,357 | 4,533 |

(Continued)

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2004
(\$000s)

| | Local Source | | | | Federal Source | | | |
|---|---------------------|-------------------|------------------|---------------|--------------------|-------------------|------------------|----------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Public education system: | | | | | | | | |
| Public schools | \$ 738,444 | 763,937 | 762,723 | 1,214 | 132,146 | 164,921 | 125,263 | 39,658 |
| AY05 public school expenditure | - | 6,662 | 6,662 | - | - | - | - | - |
| State education office | 9,959 | 11,496 | 11,283 | 213 | 47,505 | 68,738 | 65,854 | 2,884 |
| Public charter schools | 137,531 | 115,819 | 115,513 | 306 | 12,923 | 1,988 | 1,988 | - |
| AY05 public charter school expenditure | - | 46,456 | 46,456 | - | - | - | - | - |
| University | 48,656 | 50,782 | 50,781 | 1 | - | - | - | - |
| AY05 university expenditure | - | 80 | 80 | - | - | - | - | - |
| Public library | 26,750 | 27,278 | 26,887 | 391 | 1,000 | 926 | 735 | 191 |
| Arts and humanities | 1,601 | 1,605 | 1,597 | 8 | 475 | 523 | 518 | 5 |
| Total public education system | 962,941 | 1,024,115 | 1,021,982 | 2,133 | 194,049 | 237,096 | 194,358 | 42,738 |
| Human support services: | | | | | | | | |
| Human development | 225,611 | 239,778 | 238,564 | 1,214 | 167,385 | 195,760 | 188,773 | 6,987 |
| Child and family services | 126,028 | 126,640 | 126,402 | 238 | 48,367 | 53,186 | 45,202 | 7,984 |
| Dept of mental health | 128,726 | 138,930 | 137,771 | 1,159 | 12,936 | 13,764 | 10,248 | 3,516 |
| Health | 458,646 | 462,487 | 459,436 | 3,051 | 1,018,050 | 1,102,521 | 1,081,812 | 20,709 |
| Recreation and parks | 31,672 | 32,300 | 31,347 | 953 | - | 506 | 427 | 79 |
| Aging | 14,753 | 14,781 | 14,649 | 132 | 5,669 | 8,317 | 6,604 | 1,713 |
| Unemployment compensation contribution | 8,124 | 6,824 | 5,498 | 1,326 | - | - | - | - |
| Employee disability compensation | 27,959 | 29,875 | 29,811 | 64 | - | - | - | - |
| Human rights | 1,776 | 1,813 | 1,706 | 107 | 115 | 995 | 860 | 135 |
| Children investment trust | 345 | 4,959 | 4,868 | 91 | - | - | - | - |
| Commission for women | 2,768 | - | - | - | - | 341 | 341 | - |
| Latino affairs | 3,188 | 3,199 | 3,040 | 159 | - | 400 | 400 | - |
| Energy | 392 | 1,395 | 1,388 | 7 | 9,340 | 8,865 | 8,654 | 211 |
| Asian and pacific islander affairs | - | 351 | 319 | 32 | - | - | - | - |
| Veterans' affairs | 235 | 237 | 232 | 5 | - | - | - | - |
| Medical reserve | 55,054 | 44,096 | 44,096 | - | - | - | - | - |
| Incentive for adoption of children | - | - | - | - | - | 1 | 1 | - |
| Total human support services | 1,085,277 | 1,107,665 | 1,099,127 | 8,538 | 1,261,862 | 1,384,656 | 1,343,322 | 41,334 |
| Public works: | | | | | | | | |
| Public works | 91,490 | 92,759 | 91,730 | 1,029 | - | 2,292 | 2,176 | 116 |
| Department of transportation | 20,516 | 20,411 | 20,294 | 117 | 10,742 | 22,413 | 5,069 | 17,344 |
| Department of motor vehicles | 28,809 | 29,058 | 27,154 | 1,904 | - | 733 | 706 | 27 |
| Taxicab commission | 821 | 836 | 771 | 65 | - | - | - | - |
| Washington metropolitan area transit commission | 92 | 92 | 92 | - | - | - | - | - |
| Washington metropolitan area transit authority | 162,650 | 159,668 | 159,122 | 546 | 2,982 | 3,479 | 3,479 | - |
| School transit subsidy | 3,650 | 4,450 | 4,309 | 141 | - | - | - | - |
| Total public works | 308,028 | 307,274 | 303,472 | 3,802 | 13,724 | 28,917 | 11,430 | 17,487 |
| Other: | | | | | | | | |
| Repayment of bonds and interest | 311,504 | 303,500 | 303,397 | 103 | - | - | - | - |
| Interest on short term borrowing | 3,000 | 2,904 | 2,570 | 334 | - | - | - | - |
| Certificates of participation | 4,911 | 4,911 | 4,752 | 159 | - | - | - | - |
| Settlements and judgments | 22,522 | 21,922 | 18,890 | 3,032 | - | - | - | - |
| Emergency planning and security costs | - | - | - | - | 10,935 | 10,289 | 10,289 | - |
| Wilson Building | 3,704 | 3,704 | 3,518 | 186 | - | - | - | - |
| Workforce investment | 22,308 | 1,240 | - | 1,240 | - | - | - | - |
| One-time expenditures | 11,267 | 1,107 | - | 1,107 | - | - | - | - |
| Tax increment financing | 1,940 | 1,940 | 1,940 | - | - | - | - | - |
| Grant disallowance | 57,000 | 65,896 | 65,896 | - | - | - | - | - |
| Cash reserve | 50,000 | 302 | - | 302 | - | - | - | - |
| Non-departmental agency | 11,455 | 1,722 | - | 1,722 | - | - | - | - |
| Water and sewer authority | - | - | - | - | - | - | - | - |
| Washington aqueduct | - | - | - | - | - | - | - | - |
| Lottery and games | - | - | - | - | - | - | - | - |
| Storm water | - | - | - | - | - | - | - | - |
| Sports commission | - | - | - | - | - | - | - | - |
| Retirement board administration | - | - | - | - | - | - | - | - |
| Washington convention center operations | - | - | - | - | - | - | - | - |
| Housing finance agency | - | - | - | - | - | - | - | - |
| National capital revitalization corporation | - | - | - | - | - | - | - | - |
| Total other | 499,611 | 409,148 | 400,963 | 8,185 | 10,935 | 10,289 | 10,289 | - |
| Total budget | \$ 3,832,733 | 3,878,563 | 3,830,000 | 48,563 | 1,633,960 | 2,059,753 | 1,740,142 | 319,611 |

See Accompanying Independent Auditors' Report.

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2004
(\$000s)

| | Private Grants | | | | Other Source | | | |
|---|--------------------|-------------------|--------------|--------------|--------------------|-------------------|----------------|---------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Public education system: | | | | | | | | |
| Public schools | \$ 3,599 | 4,996 | 3,727 | 1,269 | 6,527 | 6,949 | 6,080 | 869 |
| FY05 public school expenditure | - | - | - | - | - | - | - | - |
| State education office | - | - | - | - | 176 | 176 | 41 | 135 |
| Public charter schools | - | - | - | - | - | - | - | - |
| FY05 public charter school expenditure | - | - | - | - | - | - | - | - |
| University | - | - | - | - | - | - | - | - |
| FY05 university expenditure | - | - | - | - | - | - | - | - |
| Public library | - | 79 | 39 | 40 | 537 | 520 | 329 | 191 |
| Arts and humanities | - | - | - | - | 400 | 800 | 761 | 39 |
| Total public education system | 3,599 | 5,075 | 3,766 | 1,309 | 7,640 | 8,445 | 7,211 | 1,234 |
| Human support services: | | | | | | | | |
| Human development | - | 30 | 30 | - | 2,367 | 2,367 | 1,735 | 632 |
| Child and family services | - | 846 | 539 | 307 | 650 | 650 | 650 | - |
| Dept of mental health | 60 | 60 | 60 | - | - | - | - | - |
| Health | 434 | 765 | 518 | 247 | 17,533 | 18,240 | 12,947 | 5,293 |
| Recreation and parks | 839 | 1,581 | 1,340 | 241 | 1,253 | 1,693 | 1,188 | 505 |
| Aging | - | - | - | - | - | - | - | - |
| Unemployment compensation contribution | - | - | - | - | - | - | - | - |
| Employee disability compensation | - | - | - | - | - | 800 | 800 | - |
| Human rights | - | - | - | - | - | - | - | - |
| Children investment trust | - | - | - | - | - | - | - | - |
| Commission for women | - | - | - | - | - | - | - | - |
| Latino affairs | - | 25 | 5 | 20 | - | - | - | - |
| Energy | 7,997 | 1,981 | 1,981 | - | 2,527 | 713 | 588 | 125 |
| Asian and pacific islander affairs | - | - | - | - | - | - | - | - |
| Veterans' affairs | - | - | - | - | - | - | - | - |
| Medical reserve | - | - | - | - | - | - | - | - |
| Incentive for adoption of children | - | - | - | - | - | - | - | - |
| Total human support services | 9,330 | 5,288 | 4,473 | 815 | 24,330 | 24,463 | 17,908 | 6,555 |
| Public works: | | | | | | | | |
| Public works | - | - | - | - | 2,219 | 4,665 | 4,374 | 291 |
| Department of transportation | - | 149 | 149 | - | 539 | 539 | 494 | 45 |
| Department of motor vehicles | - | - | - | - | 10,419 | 9,378 | 5,830 | 3,548 |
| Taxicab commission | - | - | - | - | 567 | 567 | 450 | 117 |
| Washington metropolitan area transit commission | - | - | - | - | - | - | - | - |
| Washington metropolitan area transit authority | - | - | - | - | - | - | - | - |
| School transit subsidy | - | - | - | - | - | - | - | - |
| Total public works | - | 149 | 149 | - | 13,744 | 15,149 | 11,148 | 4,001 |
| Other: | | | | | | | | |
| Repayment of bonds and interest | - | - | - | - | - | - | - | - |
| Interest on short term borrowing | - | - | - | - | - | - | - | - |
| Certificates of participation | - | - | - | - | - | - | - | - |
| Settlements and judgments | - | - | - | - | - | - | - | - |
| Emergency planning and security costs | - | - | - | - | - | - | - | - |
| Wilson Building | - | - | - | - | - | - | - | - |
| Workforce investment | - | - | - | - | - | - | - | - |
| One-time expenditures | - | - | - | - | - | - | - | - |
| Tax increment financing | - | - | - | - | - | - | - | - |
| Grant disallowance | - | - | - | - | - | - | - | - |
| Cash reserve | - | - | - | - | - | - | - | - |
| Non-departmental agency | - | - | - | - | 8,184 | 2,826 | - | 2,826 |
| Water and sewer authority | - | - | - | - | 259,095 | - | - | - |
| Washington aqueduct | - | - | - | - | 55,553 | - | - | - |
| Lottery and games | - | - | - | - | 242,755 | - | - | - |
| Storm water | - | - | - | - | 3,501 | 3,501 | 2,031 | 1,470 |
| Sports commission | - | - | - | - | 13,979 | - | - | - |
| Retirement board administration | - | - | - | - | 13,895 | 13,895 | 9,037 | 4,858 |
| Washington convention center operations | - | - | - | - | 69,742 | - | - | - |
| Housing finance agency | - | - | - | - | 6,089 | 6,089 | - | 6,089 |
| National capital revitalization corporation | - | - | - | - | 7,849 | 7,849 | - | 7,849 |
| Total other | - | - | - | - | 680,642 | 34,160 | 11,068 | 23,092 |
| Total budget | \$ 13,063 | 11,010 | 8,755 | 2,255 | 897,559 | 251,956 | 169,258 | 82,698 |

Exhibit D-3

**FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
Year Ended September 30, 2004
(\$000s)**

| | Local Source | | | Federal Resources | | |
|---|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| | Original Budget | Repro- gramming | Revised Budget | Original Budget | Repro- gramming | Revised Budget |
| Revenues and Sources: | | | | | | |
| Taxes: | | | | | | |
| Property taxes | \$ 999,468 | (22,631) | 976,837 | - | - | - |
| Sales and use taxes | 738,777 | 17,648 | 756,425 | - | - | - |
| Income taxes | 1,176,419 | 31,275 | 1,207,694 | - | - | - |
| Other taxes | 458,708 | 71,553 | 530,261 | - | - | - |
| Total taxes | 3,373,372 | 97,845 | 3,471,217 | - | - | - |
| Licenses and permits | 63,462 | (1,387) | 62,075 | - | - | - |
| Fines and forfeits | 100,439 | (14,140) | 86,299 | - | - | - |
| Charges for services | 51,421 | (468) | 50,953 | - | - | - |
| Miscellaneous | 79,179 | 8,166 | 87,345 | - | - | - |
| Private & Other | - | - | - | - | - | - |
| Federal contributions | - | - | - | 85,094 | 58,513 | 143,607 |
| Operating grant | - | - | - | 1,548,866 | 334,808 | 1,883,674 |
| Fund balance released from restrictions | 96,498 | 20,244 | 116,742 | - | 32,472 | 32,472 |
| Transfer in from Lottery Board | 70,200 | - | 70,200 | - | - | - |
| Total revenues and sources | 3,834,571 | 110,260 | 3,944,831 | 1,633,960 | 425,793 | 2,059,753 |
| Expenditures and Uses: | | | | | | |
| Governmental direction and support | 206,825 | 18,684 | 225,509 | 50,235 | 159,780 | 210,015 |
| Economic development and regulation | 53,336 | 10,220 | 63,556 | 91,076 | 69,818 | 160,894 |
| Public safety and justice | 716,715 | 24,581 | 741,296 | 12,079 | 15,807 | 27,886 |
| Public education system | 962,941 | 7,976 | 970,917 | 194,049 | 43,047 | 237,096 |
| Public school AY05 expenditure | - | 53,198 | 53,198 | - | - | - |
| Human support services | 1,085,277 | 22,388 | 1,107,665 | 1,261,862 | 122,794 | 1,384,656 |
| Public works | 308,028 | (754) | 307,274 | 13,724 | 15,193 | 28,917 |
| Receiverships | - | - | - | - | - | - |
| Workforce investments | 22,308 | (21,068) | 1,240 | - | - | - |
| Tobacco Settlement Trust Fund Transfer | - | - | - | - | - | - |
| Wilson Building | 3,704 | - | 3,704 | - | - | - |
| Reserve | - | - | - | - | - | - |
| Reserve Relief | - | - | - | - | - | - |
| Repayment of bonds and interest | 311,504 | (8,004) | 303,500 | - | - | - |
| Repayment of general fund deficit bonds | - | - | - | - | - | - |
| Interest on short term borrowing | 3,000 | (96) | 2,904 | - | - | - |
| Certificates of participation | 4,911 | - | 4,911 | - | - | - |
| One-time expenditures | 11,267 | (10,160) | 1,107 | - | - | - |
| Tax increment financing | 1,940 | - | 1,940 | - | - | - |
| Grant disallowance | 57,000 | 8,896 | 65,896 | - | - | - |
| Cash reserve | 50,000 | (49,698) | 302 | - | - | - |
| Non departmental | 11,455 | (9,733) | 1,722 | - | - | - |
| Emergency planning and security costs | - | - | - | 10,935 | (646) | 10,289 |
| Water and sewer authority | - | - | - | - | - | - |
| Washington aqueduct | - | - | - | - | - | - |
| Lottery and games | - | - | - | - | - | - |
| Sports commission | - | - | - | - | - | - |
| Storm water | - | - | - | - | - | - |
| Retirement board administration | - | - | - | - | - | - |
| Correctional Industries | - | - | - | - | - | - |
| Washington convention center operations | - | - | - | - | - | - |
| Housing finance agency | - | - | - | - | - | - |
| Human resource development | - | - | - | - | - | - |
| Settlements and judgments | 22,522 | (600) | 21,922 | - | - | - |
| National capital revitalization corporation | - | - | - | - | - | - |
| Total expenditures and uses | 3,832,733 | 45,830 | 3,878,563 | 1,633,960 | 425,793 | 2,059,753 |
| Excess (Deficiency) of Revenues and Sources Over (Under) | | | | | | |
| Expenditures and Uses | \$ 1,838 | 64,430 | 66,268 | - | - | - |

See Accompanying Independent Auditors' Report

Exhibit D-3

**FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
Year Ended September 30, 2004
(\$000s)**

| | Private and Other | | | Totals | | |
|---|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| | Original Budget | Repro- gramming | Revised Budget | Original Budget | Repro- gramming | Revised Budget |
| Revenues and Sources: | | | | | | |
| Taxes: | | | | | | |
| Property taxes | \$ - | - | - | 999,468 | (22,631) | 976,837 |
| Sales and use taxes | - | - | - | 738,777 | 17,648 | 756,425 |
| Income taxes | - | - | - | 1,176,419 | 31,275 | 1,207,694 |
| Other taxes | - | - | - | 458,708 | 71,553 | 530,261 |
| Total taxes | - | - | - | 3,373,372 | 97,845 | 3,471,217 |
| Licenses and permits | - | - | - | 63,462 | (1,387) | 62,075 |
| Fines and forfeits | - | - | - | 100,439 | (14,140) | 86,299 |
| Charges for services | - | - | - | 51,421 | (468) | 50,953 |
| Miscellaneous | - | - | - | 79,179 | 8,166 | 87,345 |
| Private & Other | 858,027 | (647,656) | 210,371 | 858,027 | (647,656) | 210,371 |
| Federal contributions | - | - | - | 85,094 | 58,513 | 143,607 |
| Operating grant | - | - | - | 1,548,866 | 334,808 | 1,883,674 |
| Fund balance released from restrictions | 52,595 | - | 52,595 | 149,093 | 52,716 | 201,809 |
| Transfer in from Lottery Board | - | - | - | 70,200 | - | 70,200 |
| Total revenues and sources | 910,622 | (647,656) | 262,966 | 6,379,153 | (111,603) | 6,267,550 |
| Expenditures and Uses: | | | | | | |
| Governmental direction and support | 20,150 | 1,141 | 21,291 | 277,210 | 179,605 | 456,815 |
| Economic development and regulation | 132,234 | (6,210) | 126,024 | 276,646 | 73,828 | 350,474 |
| Public safety and justice | 18,953 | 3,969 | 22,922 | 747,747 | 44,357 | 792,104 |
| Public education system | 11,239 | 2,281 | 13,520 | 1,168,229 | 53,304 | 1,221,533 |
| Public School FY05 Expenditure | - | - | - | - | 53,198 | 53,198 |
| Human support services | 33,660 | (3,909) | 29,751 | 2,380,799 | 141,273 | 2,522,072 |
| Public works | 13,744 | 1,554 | 15,298 | 335,496 | 15,993 | 351,489 |
| Receiverships | - | - | - | - | - | - |
| Workforce investments | - | - | - | 22,308 | (21,068) | 1,240 |
| Tobacco Settlement Trust Fund Transfer | - | - | - | - | - | - |
| Wilson Building | - | - | - | 3,704 | - | 3,704 |
| Reserve | - | - | - | - | - | - |
| Reserve Relief | - | - | - | - | - | - |
| Repayment of bonds and interest | - | - | - | 311,504 | (8,004) | 303,500 |
| Repayment of general fund deficit bonds | - | - | - | - | - | - |
| Interest on short term borrowing | - | - | - | 3,000 | (96) | 2,904 |
| Certificates of participation | - | - | - | 4,911 | - | 4,911 |
| One-time expenditures | - | - | - | 11,267 | (10,160) | 1,107 |
| Tax increment financing | - | - | - | 1,940 | - | 1,940 |
| Grant disallowance | - | - | - | 57,000 | 8,896 | 65,896 |
| Cash reserve | - | - | - | 50,000 | (49,698) | 302 |
| Non departmental | 8,184 | (5,358) | 2,826 | 19,639 | (15,091) | 4,548 |
| Emergency planning and security costs | - | - | - | 10,935 | (646) | 10,289 |
| Water and sewer authority | 259,095 | (259,095) | - | 259,095 | (259,095) | - |
| Washington aqueduct | 55,553 | (55,553) | - | 55,553 | (55,553) | - |
| Lottery and games | 242,755 | (242,755) | - | 242,755 | (242,755) | - |
| Sports commission | 13,979 | (13,979) | - | 13,979 | (13,979) | - |
| Storm water | 3,501 | - | 3,501 | 3,501 | - | 3,501 |
| Retirement board administration | 13,895 | - | 13,895 | 13,895 | - | 13,895 |
| Correctional Industries | - | - | - | - | - | - |
| Washington convention center operations | 69,742 | (69,742) | - | 69,742 | (69,742) | - |
| Housing finance agency | 6,089 | - | 6,089 | 6,089 | - | 6,089 |
| Human resource development | - | - | - | - | - | - |
| Settlements and judgments | - | - | - | 22,522 | (600) | 21,922 |
| National capital revitalization corporation | 7,849 | - | 7,849 | 7,849 | - | 7,849 |
| Total expenditures and uses | 910,622 | (647,656) | 262,966 | 6,377,315 | (176,033) | 6,201,282 |
| Excess (Deficiency) of Revenues and Sources Over (Under) | | | | | | |
| Expenditures and Uses | \$ - | - | - | 1,838 | 64,430 | 66,268 |

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1. Financial Trends

These schedules contain trend information to better understand how the District's financial performance and well-being have changed over time.

**Net Assets By Component
Last Three Fiscal Years**

Exhibit S-1A

(accrual basis of accounting, dollars in thousands)

| NET ASSETS | 2002 | 2003 | 2004 |
|---|---------------------|---------------------|---------------------|
| Governmental activities | | | |
| Invested in capital assets, net of related debt | \$ 656,901 | \$ 518,223 | \$ 774,533 |
| Restricted | 834,006 | 870,284 | 807,839 |
| Unrestricted | (625,908) | (593,786) | (362,225) |
| Total governmental activities net assets | <u>864,999</u> | <u>794,721</u> | <u>1,220,147</u> |
| Business-type activities | | | |
| Invested in capital assets, net of related debt | 1,495 | 1,354 | 17,927 |
| Restricted | 271,361 | 262,148 | 294,476 |
| Unrestricted | 1,990 | 37,442 | 34,466 |
| Total business-type activities net assets | <u>274,846</u> | <u>300,944</u> | <u>346,869</u> |
| Primary government | | | |
| Invested in capital assets, net of related debt | 658,396 | 519,577 | 792,460 |
| Restricted | 1,105,367 | 1,132,432 | 1,102,315 |
| Unrestricted | (623,918) | (556,344) | (327,759) |
| Total primary government net assets | <u>\$ 1,139,845</u> | <u>\$ 1,095,665</u> | <u>\$ 1,567,016</u> |

Note: As a result of GASB 34 implementation in FY2002, only three fiscal years are presented.

Source: Office of Financial Operations and Systems

Changes in Net Assets
Last Three Fiscal Years
(accrual basis of accounting, dollars in thousands)

Exhibit S-1B

| | 2002 | 2003 | 2004 |
|--|---------------------|---------------------|---------------------|
| Governmental activities | | | |
| Expenses | | | |
| Governmental direction and support | \$ 471,609 | \$ 525,072 | \$ 554,614 |
| Economic development and regulation | 323,804 | 252,716 | 253,311 |
| Public safety and justice | 920,599 | 936,797 | 1,007,755 |
| Public education system | 1,153,719 | 1,168,545 | 1,301,807 |
| Human support services | 2,267,597 | 2,572,881 | 2,537,195 |
| Public works | 279,506 | 312,704 | 313,580 |
| Public transportation | 184,883 | 272,726 | 162,602 |
| Interest on long-term debt | 175,241 | 178,301 | 189,697 |
| Total governmental activities expenses | 5,776,958 | 6,219,742 | 6,320,561 |
| Program revenues | | | |
| Charges for services, fees, fines & forfeitures: | | | |
| Fines and forfeitures | 88,495 | 90,237 | 102,828 |
| Licenses and permits | 52,003 | 62,189 | 62,968 |
| Charges for services | 145,546 | 170,735 | 134,314 |
| Operating grants & contributions | 1,890,544 | 1,833,060 | 2,060,973 |
| Capital grants & contributions | 161,450 | 176,449 | 151,334 |
| Total governmental activities program revenues | 2,338,038 | 2,332,670 | 2,512,417 |
| Net (expenses)/revenues | (3,438,920) | (3,887,072) | (3,808,144) |
| General revenues | | | |
| Taxes: | | | |
| Property taxes | 809,069 | 899,665 | 1,017,653 |
| Sales and use taxes | 750,060 | 779,920 | 828,391 |
| Income and franchise taxes | 1,160,423 | 1,167,452 | 1,299,009 |
| Gross receipts taxes | 231,786 | 261,643 | 271,897 |
| Other taxes | 283,146 | 273,191 | 379,521 |
| Grants and contributions - unrestricted | - | 25,070 | 24,543 |
| Investment earnings | 19,283 | 13,341 | 16,211 |
| Miscellaneous | 333,943 | 325,529 | 314,596 |
| Special items | (171,094) | - | - |
| Transfers | 63,000 | 37,574 | 73,500 |
| Total governmental activities general revenues | 3,479,616 | 3,783,385 | 4,225,321 |
| Change in net assets --- governmental activities | \$ 40,696 | \$ (103,687) | \$ 417,177 |
| Business activities | | | |
| Expenses | | | |
| Lottery and games | \$ 148,670 | \$ 166,185 | \$ 167,938 |
| Unemployment compensation | 191,043 | 165,045 | 113,888 |
| Nursing home services | - | 34,687 | 33,023 |
| Total business-type activities expenses | 339,713 | 365,917 | 314,849 |
| Program revenues | | | |
| Charges for services, fees, fines & forfeitures: | | | |
| Lottery and games | 211,151 | 237,890 | 241,133 |
| Unemployment compensation | - | - | - |
| Nursing home services | - | 34,124 | 30,544 |
| Operating grants & contributions | 49,308 | 55,356 | 26,588 |
| Capital grants & contributions | - | - | 15,464 |
| Total business-type activities program revenues | 260,459 | 327,370 | 313,729 |
| Net (expenses)/revenues | (79,254) | (38,547) | (1,120) |
| General revenues | | | |
| Taxes: | | | |
| Other taxes | 104,945 | 82,626 | 103,448 |
| Investment earnings | 18,978 | 19,332 | 16,847 |
| Miscellaneous | - | 261 | 250 |
| Transfers | (63,000) | (37,574) | (73,500) |
| Total business-type activities general revenues | 60,923 | 64,645 | 47,045 |
| Change in net assets --- business-type activities | \$ (18,331) | \$ 26,098 | \$ 45,925 |
| Total primary government | | | |
| Expenses | \$ 6,116,671 | \$ 6,585,659 | \$ 6,635,410 |
| Program revenues | 2,598,497 | 2,660,040 | 2,826,146 |
| Net (expenses)/revenues | (3,518,174) | (3,925,619) | (3,809,264) |
| General revenues | 3,540,539 | 3,848,030 | 4,272,366 |
| Change in net assets --- primary government | \$ 22,365 | \$ (73,090) | \$ 463,102 |

Note: As a result of GASB 34 implementation in FY2002, only three fiscal years are presented.

Source: Office of Financial Operations and Systems

Fund Balances, Governmental Funds
Last Three Fiscal Years

Exhibit S-1C

(modified accrual basis of accounting, dollars in thousands)

| | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|---|------------------|-------------------|------------------|
| General Fund | | | |
| Reserved | \$ 545,414 | \$ 568,243 | \$ 607,903 |
| Unreserved | <u>319,914</u> | <u>329,114</u> | <u>607,112</u> |
| Total general fund | <u>865,328</u> | <u>897,357</u> | <u>1,215,015</u> |
| All other governmental funds | | | |
| Reserved | 441,696 | 302,041 | 283,205 |
| Unreserved, reported in: | | | |
| Special revenue funds | 31,751 | - | - |
| Capital project funds | <u>(472,305)</u> | <u>(169,287)</u> | <u>(273,432)</u> |
| Total all other governmental funds | <u>\$ 1,142</u> | <u>\$ 132,754</u> | <u>\$ 9,773</u> |

Note: As a result of GASB 34 implementation in FY2002, only three fiscal years are presented.

Source: Office of Financial Operations and Systems

Changes in Fund Balances, Governmental Funds**Exhibit S-1D****Last Three Fiscal Years***(modified accrual basis of accounting, dollars in thousands)*

| | 2002 | 2003 | 2004 |
|--|--------------------|-------------------|-------------------|
| REVENUES | | | |
| Taxes | \$ 3,229,809 | \$ 3,384,093 | \$ 3,806,906 |
| Fines and forfeits | 88,495 | 90,238 | 102,828 |
| Licenses and permits | 52,003 | 62,189 | 62,968 |
| Charges for services | 145,546 | 170,736 | 134,314 |
| Investment earnings | 19,283 | 13,341 | 16,211 |
| Miscellaneous | 332,861 | 320,460 | 305,039 |
| Federal contributions | 652,066 | 539,510 | 536,292 |
| Operating grants | 1,399,928 | 1,395,994 | 1,700,558 |
| Total revenues | 5,919,991 | 5,976,561 | 6,665,116 |
| EXPENDITURES | | | |
| Governmental direction and support | 366,981 | 415,591 | 483,185 |
| Economic development and regulation | 223,760 | 224,811 | 236,220 |
| Public safety and justice | 899,116 | 907,670 | 984,062 |
| Public education system | 1,143,281 | 1,155,297 | 1,284,448 |
| Human support services | 2,249,303 | 2,445,336 | 2,563,646 |
| Public works | 149,302 | 164,753 | 164,231 |
| Public transportation | 184,883 | 272,726 | 162,602 |
| Debt service: | | | |
| Principal | 138,575 | 149,792 | 152,086 |
| Interest and other charges | 189,006 | 178,301 | 189,697 |
| Fiscal charges | - | 15,338 | 13,721 |
| Total debt service | 327,581 | 343,431 | 355,504 |
| Total noncapital expenditures | 5,544,207 | 5,929,615 | 6,233,898 |
| Capital outlay | 905,418 | 762,145 | 666,649 |
| Total expenditures | 6,449,625 | 6,691,760 | 6,900,547 |
| Excess of revenues over(under) expenditures | (529,634) | (715,199) | (235,431) |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of bonds | 408,180 | 1,019,873 | 325,726 |
| Payment to refunded bond escrow agent | (69,487) | (234,179) | - |
| Proceeds from bond escrow restructuring | - | - | 9,557 |
| Proceeds from capital lease | - | - | 503 |
| Equipment financing program | 51,944 | 17,094 | 20,822 |
| Transfer in | 63,000 | 42,643 | 109,717 |
| Transfers out | - | - | (36,217) |
| Total other financing sources (uses) | 453,637 | 845,431 | 430,108 |
| Net change in fund balances | \$ (75,997) | \$ 130,232 | \$ 194,677 |
| Debt service as a percentage of noncapital expenditures | 5.91% | 5.79% | 5.70% |

Source: Office of Financial Operations and Systems

Tax Revenues by Source, Governmental Funds
Last Three Fiscal Years
(modified accrual basis of accounting, dollars in thousands)

Exhibit S-1E

| Fiscal Year | Property Tax | | | Sales and Use | Income and Franchise | Gross Receipts | Other Taxes | Total |
|-------------|--------------|-----------|-----------|---------------|----------------------|----------------|-------------|--------------|
| | Real | Personal | Rental | | | | | |
| 2002 | \$ 726,014 | \$ 65,208 | \$ 13,172 | \$ 750,060 | \$ 1,160,423 | \$ 231,786 | \$ 283,146 | \$ 3,229,809 |
| 2003 | 822,845 | 67,294 | 11,749 | 779,920 | 1,167,452 | 261,643 | 273,191 | 3,384,094 |
| 2004 | 947,690 | 63,558 | 16,840 | 828,391 | 1,299,009 | 271,897 | 379,521 | 3,806,906 |

Note: As a result of GASB 34 implementation in FY2002, only three fiscal years are presented.

Source: Office of Financial Operations and Systems

2. Revenue Capacity

These schedules contain information regarding the District's most significant local revenue sources: property, income, and sales and use taxes.

**Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years**
(dollars in thousands)

Exhibit S-2A

| Fiscal Year | Estimated actual value | | Total Taxable | Tax Exempt | Total Value | Total direct tax rate | Tax exempt as a % of total estimated actual value |
|-------------|------------------------|----------------------|---------------|---------------|---------------|-----------------------|---|
| | Commercial Property | Residential Property | | | | | |
| | | (1) (2) (3) | | | | | |
| 1995 | \$ 21,687,105 | \$ 20,480,012 | \$ 42,167,117 | \$ 31,892,428 | \$ 74,059,545 | N/A | 43.1% |
| 1996 | 20,657,057 | 22,041,463 | 42,698,520 | 29,749,392 | 72,447,912 | N/A | 41.1% |
| 1997 | 19,373,225 | 22,884,675 | 42,257,900 | 30,170,470 | 72,428,370 | N/A | 41.7% |
| 1998 | 19,726,319 | 23,461,404 | 43,187,723 | 31,517,981 | 74,705,704 | N/A | 42.2% |
| 1999 | 18,734,933 | 23,710,565 | 42,445,498 | 30,620,782 | 73,066,280 | N/A | 41.9% |
| 2000 | 19,357,631 | 23,912,435 | 43,270,066 | 30,900,682 | 74,170,748 | 1.43 | 41.7% |
| 2001 | 21,960,148 | 22,268,968 | 44,229,116 | 32,086,134 | 76,315,250 | 1.45 | 42.0% |
| 2002 | 27,619,604 | 24,902,543 | 52,522,147 | 33,812,037 | 86,334,184 | 1.39 | 39.2% |
| 2003 | 29,684,430 | 28,379,237 | 58,063,667 | 35,728,289 | 93,791,956 | 1.38 | 38.1% |
| 2004 | 33,752,889 | 32,701,220 | 66,454,109 | 43,234,068 | 109,688,177 | 1.35 | 39.4% |

Note: Assessed value is 100 percent of estimated actual value.

Total direct tax rate for years 1995 - 1999 could not be determined

(1) After deduction of homestead exemption and credits against tax

(2) Does not reflect the 2002 & 2003 Cap Assessment of 25% for Class 01 with Homestead Exemptions

(3) Does not reflect the 2004 Cap Assessment of 12% for Class 01 with Homestead

Source: Office of Tax and Revenue

**Direct Property Tax Rates
Last Five Fiscal Years**

Exhibit S-2B

| Direct Property Tax Rate | | | | |
|--------------------------|------------|--------------------|---------------|--------------|
| Fiscal Year | Basic Rate | General Obligation | Redevelopment | Total Direct |
| | | Debt Service | Program | |
| 2000 | 0.73 | 0.70 | - | 1.43 |
| 2001 | 0.75 | 0.70 | - | 1.45 |
| 2002 | 0.79 | 0.60 | - | 1.39 |
| 2003 | 0.78 | 0.60 | - | 1.38 |
| 2004 | 0.90 | 0.45 | - | 1.35 |

Note: Information prior to FY2000 is not available.

Source: Office of Tax and Revenue

Major Tax Rate
Last Ten Fiscal Years

Exhibit S-2C

| Fiscal Year | Property | | | | | | Sales and Use | | | Income and Franchise | | Gross Receipt |
|-------------|----------------|-----------------|------------|----------|------------|----------|---------------|-----------|------------|----------------------|----------|----------------|
| | Residential | | Commercial | | | Personal | General | Cigarette | Motor fuel | Individual | Business | Public Utility |
| | Owner occupied | Tenant occupied | Hotels | Improved | Unimproved | | | | | | | |
| 1995 | 0.96 | 1.54 | 1.85 | 2.15 | 5.00 | 3.40 | 0.06 | 0.65 | 0.20 | .060-.095 | 0.10 | 0.10 |
| 1996 | 0.96 | 1.54 | 1.85 | 2.15 | 5.00 | 3.40 | 0.06 | 0.65 | 0.20 | .060-.095 | 0.10 | 0.10 |
| 1997 | 0.96 | 1.54 | 1.85 | 2.15 | 5.00 | 3.40 | 0.06 | 0.65 | 0.20 | .060-.095 | 0.10 | 0.10 |
| 1998 | 0.96 | 1.54 | 1.85 | 2.15 | 5.00 | 3.40 | 0.06 | 0.65 | 0.20 | .060-.095 | 0.10 | 0.10 |
| 1999 | 0.96 | 1.54 | 1.85 | 2.15 | 5.00 | 3.40 | 0.06 | 0.65 | 0.20 | .060-.095 | 0.10 | 0.10 |
| 2000 | 0.96 | 1.34 | 1.85 | 2.05 | 2.05 | 3.40 | 0.06 | 0.65 | 0.20 | .050-.095 | 0.10 | 0.10 |
| 2001 | 0.96 | 1.15 | 1.85 | 1.95 | 1.95 | 3.40 | 0.06 | 0.65 | 0.20 | .050-.093 | 0.10 | 0.10 |
| 2002 | 0.96 | 0.96 | 1.85 | 1.85 | 1.85 | 3.40 | 0.06 | 0.65 | 0.20 | .050-.093 | 0.10 | 0.10 |
| 2003 | 0.96 | 0.96 | 1.85 | 1.85 | 5.00 | 3.40 | 0.06 | 1.00 | 0.20 | .050-.093 | 0.10 | 0.11 |
| 2004 | 0.96 | 0.96 | 1.15 | 1.15 | 5.00 | 3.40 | 0.06 | 1.00 | 0.20 | .050-.093 | 0.10 | 0.11 |

Source: Office of Tax and Revenue

Principal Property Taxpayers
Current Year and Nine Years Ago
(dollars in thousands)

Exhibit S-2D

| Taxpayer | 2004 | | | 1995 | | |
|--|------------------------|------|-----------------------------------|------------------------|---------|-----------------------------------|
| | Taxable Assessed Value | Rank | % of Total Taxable Assessed Value | Taxable Assessed Value | ** Rank | % of Total Taxable Assessed Value |
| | | | | | | |
| MANUFACTURERS LIFE INSURANCE | \$ 273,919 | 1 | 0.412% | \$ N/A | | New Lot 1997 |
| WASHINGTON SQUARE LIMITED PARTNERSHIP | 255,005 | 2 | 0.384% | 212,231 | 1 | 0.503% |
| CARR REALTY SQUARE 106 PARTNERSHIP | 237,570 | 3 | 0.357% | 176,689 | 2 | 0.419% |
| 13TH & F ASSOCIATES LP & WMATA | 235,499 | 4 | 0.354% | 148,421 * | 3 | 0.352% |
| WELLS REIT/INDEPENDENCE SQUARE LLC | 226,587 | 5 | 0.341% | 143,566 * | 4 | 0.340% |
| RUTH R ECKLES/WARNER INVESTMENTS LP, ET AL | 216,269 | 6 | 0.325% | 105,626 * | 6 | 0.250% |
| 1301 K STREET LP | 197,327 | 7 | 0.297% | N/A | | New Lot 1997 |
| METROPOLITAN SQUARE ASSOCIATES LLC | 182,000 | 8 | 0.274% | 140,181 * | 5 | 0.332% |
| TIAA FRANKLIN SQUARE LLC | 179,347 | 9 | 0.270% | 39,009 * | 7 | 0.093% |
| PARCEL 49C LP | 176,472 | 10 | 0.266% | 8,582 | 8 | 0.020% |

* Different ownership in 1995

** 1995 exact rank can not be determined

Source: Office of Tax and Revenue

Ten Highest Assessed Values For Tax Exempt Properties
Current Year
(dollars in thousands)

Exhibit S-2E

| Property | Value |
|---------------------------------------|------------|
| INTERNATIONAL FINANCE CORPORATION | \$ 349,709 |
| INTERNATIONAL BANK FOR RECONSTRUCTION | 308,066 |
| GEORGETOWN UNIVERSITY | 261,489 |
| WASHINGTON HOSPITAL CENTER | 228,873 |
| INTER-AMERICAN DEVELOPMENT BANK | 191,720 |
| PROTESTANT EPISCOPAL CATHEDRAL FND DC | 163,448 |
| AMERICAN UNIVERSITY | 153,264 |
| INTERNATIONAL MONETARY FUND | 141,587 |
| INTERNATIONAL BANK FOR RECONSTRUCTION | 128,394 |
| CATHOLIC UNIVERSITY OF AMERICA | 124,726 |

Source: Office of Tax and Revenue

Property Tax Levies and Collections
Last Ten Fiscal Years
(dollars in thousands)

Exhibit S-2F

| Fiscal Year Ended Sep 30 | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Collections to Date | |
|-----------------------------|-------------------------------------|---|-----------------------|---------------------------------------|---------------------------|-----------------------|
| | | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 1995 | \$ 736,673 | \$ 649,020 | 88.10% | \$ 5,540 | \$ 654,560 | 88.85% |
| 1996 | 720,033 | 632,181 | 87.80% | 23,119 | 655,300 | 91.01% |
| 1997 | 660,824 | 606,435 | 91.77% | 13,373 | 619,808 | 93.79% |
| 1998 | 664,687 | 590,249 | 88.80% | 29,711 | 619,960 | 93.27% |
| 1999 | 642,388 | 557,899 | 86.85% | 34,407 | 592,306 | 92.20% |
| 2000 | 632,975 | 569,190 | 89.92% | 52,283 | 621,473 | 98.18% |
| 2001 | 668,813 | 576,965 | 86.27% | 43,008 | 619,973 | 92.70% |
| 2002 | 710,816 | 649,895 | 91.43% | 54,532 | 704,427 | 99.10% |
| 2003 | 836,689 | 774,989 | 92.63% | 33,395 | 808,384 | 96.62% |
| 2004 | 929,889 | 898,352 | 96.61% | N/A | 898,352 | 96.61% |

Source: Office of Tax and Revenue

**Personal Income Tax Rates
Last Ten Fiscal Years**
Exhibit S-2G

| Year | Top Rate | Top Income Tax Rate Is Applied to Taxable Income in Excess of | | | * Average Effective Rate |
|------|-------------|--|------------------------------|----------------------|--------------------------------|
| | | Single | Married Filing Jointly | Head of Household | |
| 1995 | 9.50% | \$ 20,000 | \$ 20,000 | \$ 20,000 | 6.03% |
| 1996 | 9.50% | 20,000 | 20,000 | 20,000 | 6.03% |
| 1997 | 9.50% | 20,000 | 20,000 | 20,000 | 6.32% |
| 1998 | 9.50% | 20,000 | 20,000 | 20,000 | 6.39% |
| 1999 | 9.50% | 20,000 | 20,000 | 20,000 | 6.47% |
| 2000 | 9.50% | 20,000 | 20,000 | 20,000 | 6.39% |
| 2001 | 9.30% | 30,000 | 30,000 | 30,000 | 6.60% |
| 2002 | 9.30% | 30,000 | 30,000 | 30,000 | 6.55% |
| 2003 | 9.30% | 30,000 | 30,000 | 30,000 | 6.66% |
| 2004 | 9.30% | 30,000 | 30,000 | 30,000 | N/A |

N/A: Not Available

* Fiscal year personal income tax collections divided by prior-year personal income.

Source: Office of Tax and Revenue

**Personal Income Tax Filers and Liability by Income Level
Current Year and Nine Years Ago**
(dollars, except income level, are in thousands)
Exhibit S-2H

| Income Level | 2004 | | | | 1995 | | | |
|-----------------------|---------------------|------------------------|-------------------------------------|------------------------|---------------------|------------------------|-------------------------------------|------------------------|
| | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total |
| \$100,001 and higher | 27,820 | 10.43% | \$ 574,198,501 | 59.45% | 16,329 | 5.64% | \$ 220,210,708 | 38.47% |
| \$75,001 -- \$100,000 | 15,095 | 5.66% | 86,022,549 | 8.91% | 10,395 | 3.59% | 57,183,173 | 9.99% |
| \$50,001 -- \$75,000 | 30,986 | 11.62% | 115,672,576 | 11.98% | 24,342 | 8.41% | 88,014,371 | 15.37% |
| \$25,001 -- \$50,000 | 75,708 | 28.39% | 140,687,219 | 14.56% | 77,081 | 26.62% | 139,952,816 | 24.45% |
| \$10,001 -- \$25,000 | 68,293 | 25.61% | 44,803,476 | 4.64% | 96,716 | 33.41% | 61,262,146 | 10.70% |
| \$10,000 and lower | 48,804 | 18.30% | 4,545,312 | 0.47% | 64,648 | 22.33% | 5,838,869 | 1.02% |
| Total | 266,706 | 100.00% | \$ 965,929,633 | 100.00% | 289,511 | 100.00% | \$ 572,462,083 | 100.00% |

Source: Office of Tax and Revenue

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3. Debt Capacity

These schedules present information showing the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Exhibit S-3A

| Fiscal Year | Governmental Activities | | | | | | | Personal Income | Total Debt as a Percentage of Personal Income | Population | Total Debt Per Capita |
|-------------|--------------------------|-----------|---------------|-------|-------------------------------|----------------|--------------|-----------------|---|------------|-----------------------|
| | General Obligation Bonds | TIF Bonds | Tobacco Bonds | QZAB | Certificates of Participation | Capital Leases | Total Debt | | | | |
| 1995 | \$ 3,157,003 | \$ - | \$ - | \$ - | \$ - | 77,762 | \$ 3,234,765 | 18,150,647 | 17.8 | 580,517 | \$ 5,572 |
| 1996 | 2,965,756 | - | - | - | - | 77,485 | 3,043,241 | 18,766,180 | 16.2 | 572,377 | 5,317 |
| 1997 | 3,084,763 | - | - | - | - | 129,715 | 3,214,478 | 19,579,959 | 16.4 | 567,736 | 5,662 |
| 1998 | 3,091,403 | - | - | - | - | 124,181 | 3,215,584 | 20,562,335 | 15.6 | 565,230 | 5,689 |
| 1999 | 3,098,582 | - | - | - | - | 132,189 | 3,230,771 | 21,114,995 | 15.3 | 570,213 | 5,666 |
| 2000 | 3,109,728 | - | - | - | - | 131,167 | 3,240,895 | 23,102,223 | 14.0 | 571,437 | 5,671 |
| 2001 | 2,582,017 | 6,900 | 521,105 | - | - | 121,564 | 3,231,586 | 25,618,196 | 12.6 | 569,408 | 5,675 |
| 2002 | 2,670,573 | 126,545 | 514,280 | 3,582 | - | 157,057 | 3,472,037 | 26,125,315 | 13.3 | 564,643 | 6,149 |
| 2003 | 3,251,118 | 125,524 | 506,550 | 3,327 | 129,530 | 90,458 | 4,106,507 | 26,651,113 | 15.4 | 557,620 | 7,364 |
| 2004 | 3,418,933 | 124,009 | 502,740 | 3,071 | 128,345 | 84,456 | 4,261,554 | - | - | 553,523 | 7,699 |

Note: There are no business type activities with outstanding debt

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Exhibit S-3B

| Fiscal Year | General Obligation Bonds (GO) | Actual Value of Taxable Property | GO Bonds as a Percentage of Actual Value of Taxable Property | GO Debt Per Capita |
|-------------|-------------------------------|----------------------------------|--|--------------------|
| 1995 | \$ 3,157,003 | \$ 42,167,117 | 7.49% | \$ 5,438 |
| 1996 | 2,965,756 | 42,698,520 | 6.95% | 5,181 |
| 1997 | 3,084,763 | 42,257,900 | 7.30% | 5,433 |
| 1998 | 3,091,403 | 43,187,723 | 7.16% | 5,469 |
| 1999 | 3,098,582 | 42,445,498 | 7.30% | 5,434 |
| 2000 | 3,109,728 | 43,270,066 | 7.19% | 5,442 |
| 2001 | 2,582,017 | 44,229,116 | 5.84% | 4,535 |
| 2002 | 2,670,573 | 52,522,147 | 5.08% | 4,730 |
| 2003 | 3,251,118 | 58,063,667 | 5.60% | 5,830 |
| 2004 | 3,418,933 | 66,454,109 | 5.14% | 6,177 |

Legal Debt Margin Information**Last Ten Fiscal Years***(dollars in thousands)***Debt Service Cost Margin Calculation for Fiscal Year 2004:**

| | | |
|--|----|-----------|
| General fund revenue | \$ | 4,326,306 |
| Debt service cost limitation (17% of general fund revenue) | | 735,472 |
| Debt expenditure applicable to limit: | | |
| Principal | | 146,761 |
| Interest | | 152,720 |
| Subtotal for current year | | 299,481 |
| Highest future year debt service cost | \$ | 339,003 |
| Total debt service cost subject to the limitation | | 339,003 |
| Debt service cost margin | \$ | 396,469 |

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Debt service cost limitation | \$ 499,100 | \$ 507,012 | \$ 530,194 | \$ 573,851 | \$ 608,902 | \$ 688,754 | \$ 718,024 | \$ 622,331 | \$ 627,516 |
| Highest future year debt service cost | 376,734 | 403,739 | 428,918 | 400,504 | 346,992 | 327,044 | 270,910 | 284,114 | 319,160 |
| Debt service cost margin | \$ 122,366 | \$ 103,273 | \$ 101,276 | \$ 173,347 | \$ 261,910 | \$ 361,710 | \$ 447,114 | \$ 338,217 | \$ 308,356 |
| Total debt service cost subject to the limit as a percentage of debt service cost limit | 75.5 % | 79.6 % | 80.9 % | 69.8 % | 57.0 % | 47.5 % | 37.7 % | 45.7 % | 50.9 % |
| Debt limit ratio | 10.6 % | 11.1 % | 11.3 % | 15.8 % | 12.7 % | 9.7 % | 6 % | 7.8 % | 8.6 % |

Note: Under the District of Columbia Self-Government and Governmental Reorganization Act, no long term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which the amount of the principal and interest paid in any fiscal year on all long term debt to exceed 17 percent of the revenues of the fiscal year in which the debt is issued. The debt service percent is calculated using the debt service divided by the total revenues. The debt service percent limitation was increased from 14 to 17 percent in fiscal year 1998 as a result of the National Capital Revitalization and Self-Government Improver accounting for the decrease in revenues from the repeal of the Federal payment in lieu of taxes and the loss of court revenues.

Pledged-Revenue Coverage
Last Three Fiscal Years
(dollars in thousands)

Exhibit S-3D

| Fiscal Year | Tax Increment Financing Debts | | | | Coverage |
|-------------|-------------------------------|--------------|----------|--|----------|
| | Sales Tax Increment | Debt Service | | | |
| | | Principal | Interest | | |
| 2002 | \$ 33 | \$ - | \$ 33 | | 100.00% |
| 2003 | 1,236 | 1,104 | 132 | | 100.00% |
| 2004 | 2,335 | 1,515 | 4,265 | | 40.40% |

Note: Details regarding the District's outstanding debt can be found in the Notes to the Basic Financial Statements.
The interest payment for FY 2004 includes \$1,940 paid out of the bond service reserve fund.

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4. Demographic and Economic Information

These schedules offer demographic and economic data to help explain the environment within which the District's financial activities take place. This information also facilitates comparisons of financial statement information over time and among governments.

Demographic and Economic Statistics
Last Ten Fiscal Years

Exhibit S-4A

| Fiscal Year | Popula- tion (1) | Personal Income (2)(3) | Per Capita Income (2) | Median Age (1) | Employ- ment (4) | Unemploy- ment Rate (4) | Claims | Claims |
|-------------|---------------------|---------------------------|--------------------------|-------------------|---------------------|----------------------------|--------------|--------------|
| | | | | | | | Accepted (5) | Rejected (5) |
| 1995 | 580,517 | \$ 18,150,647 | \$ 31,266 | 34.9 | 646,200 | 8.7% | 42,630 | 11,385 |
| 1996 | 572,377 | 18,766,180 | 32,786 | N/A | 627,600 | 8.8% | 45,142 | 18,821 |
| 1997 | 567,736 | 19,579,959 | 34,488 | 36.0 | 619,100 | 7.8% | 38,851 | 15,898 |
| 1998 | 565,230 | 20,562,335 | 36,379 | 36.3 | 614,600 | 9.0% | 28,202 | 8,412 |
| 1999 | 570,213 | 21,114,995 | 37,030 | 37.2 | 620,600 | 6.8% | 22,440 | 7,475 |
| 2000 | 571,437 | 23,102,223 | 40,428 | 35.4 | 645,200 | 5.6% | 22,113 | 6,002 |
| 2001 | 569,408 | 25,618,196 | 44,731 | 35.5 | 654,400 | 6.3% | 18,189 | 6,514 |
| 2002 | 564,643 | 26,125,315 | 45,902 | 35.9 | 661,800 | 6.4% | 26,166 | 10,706 |
| 2003 | 557,620 | 26,651,113 | 47,305 | 35.7 | 665,000 | 6.8% | 21,527 | 7,342 |
| 2004 | 553,523 | N/A | N/A | N/A | 669,200 | 7.2% | 18,554 | 6,450 |

N/A: Not Available

(1) Source: Federal Bureau of the Census (As of July 1)

(2) Source: Federal Department of Commerce, Bureau of Economic Analysis

(3) In thousands

(4) Source: D.C. Department of Employment Services

(5) Source: D.C. Unemployment Compensation Office

Principal Employers
Current Year and Nine Years Ago **

Exhibit S-4B

| Employer | 2003 ** | | | 1994 | | |
|---------------------------------------|-----------|------|--------------------------|-----------|------|--------------------------|
| | Employees | Rank | % of Total Employment | Employees | Rank | % of Total Employment |
| The George Washington University | * | 1 | * | * | 1 | * |
| Georgetown University | * | 2 | * | * | 2 | * |
| Washington Hospital Center | * | 3 | * | * | 3 | * |
| Howard University | * | 4 | * | * | 5 | * |
| Fannie Mae | * | 5 | * | * | 10 | * |
| Children's National Medical Center | * | 6 | * | * | 7 | * |
| Georgetown University Hospital | * | 7 | * | * | 9 | * |
| Howard University Hospital | * | 8 | * | * | 12 | * |
| American University | * | 9 | * | * | 11 | * |
| Providence Hospital | * | 10 | * | * | 16 | * |
| George Washington University Hospital | * | 15 | * | * | 4 | * |
| Washington Post | * | 11 | * | * | 6 | * |
| Potomac Electric Power Company | * | 21 | * | * | 8 | * |
| Total | 43,921 | | 10.3% | 43,262 | | 11.5% |

* This data is produced through the Quarterly Covered Employment and Wage (QCEW) Program, a Bureau of Labor Statistics federal/state cooperative statistical program. Release of data under this program is subject to the Confidential Information Protection and Statistical Efficiency Act of 2002. The District cannot release company specific employment information without the written consent of each of the companies that are included in the release of such data. As a result, we are only presenting rank and total employment information for the top ten principal employers.

** 2004 data will not be available until fiscal year 2005

5. Operating Information

These schedules contain service and infrastructure data to better understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

Operating Indicators by Function/Program
Last Ten Fiscal Years

Exhibit S-5A

| Function/Program | Operating Indicators | | | | | | | | | |
|--|----------------------|-----------|-----------|------------|------------|------------|------------|------------|------------|-----------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| <u>GOVERNMENTAL DIRECTION AND SUPPORT</u> | | | | | | | | | | |
| Bond rating by S&P | | B | B | BB | BBB | BBB | BBB+ | BBB+ | A- | A |
| Bond rating by Moody's | | Ba | Ba2 | Ba1 | Baa3 | Baa3 | Baa1 | Baa1 | Baa1 | A2 |
| Bond rating by Fitch | | BB | BB | BB+ | BBB | BBB | BBB+ | BBB+ | A- | A- |
| <u>ECONOMIC DEVELOPMENT AND REGULATION</u> | | | | | | | | | | |
| Taxable retail sales (\$ millions) | 6,264 | 6,352 | 6,640 | 6,892 | 7,730 | 8,298 | 7,367 | 7,485 | 7,683 | 8,342,682 |
| Commercial construction units | 5 | 12 | 57 | 127 | 45 | 36 | 38 | 59 | 59 | 115 |
| Value | 77,467 | 101,717 | 1,003,761 | 343,121 | 362,692 | 301,372 | 889,830 | 919,252 | 418,049 | 1,720,869 |
| Residential construction units | 67 | 80 | 165 | 165 | 40 | 42 | 422 | 448 | 499 | 506 |
| Value | 24,815 | 21,399 | 91,170 | 35,851 | 6,746 | 8,217 | 100,366 | 102,861 | 68,931 | 117,803 |
| Bank deposits | 8,893,414 | 9,025,183 | 8,865,299 | 11,083,673 | 10,903,390 | 11,869,797 | 11,855,000 | 13,336,000 | 15,637,000 | N/A |
| <u>Housing Finance Agency</u> | | | | | | | | | | |
| Number of Single-Family Units Financed | 310 | 386 | 329 | 314 | 486 | 527 | 503 | 161 | 5 | 0 |
| Amount of Single-Family Financing Provided (\$ 000s) | 31,105 | 38,600 | 300,000 | 31,217 | 56,200 | 67,922 | 61,300 | 19,600 | 612 | 0 |
| Number of Multi-Family Units Financed | 666 | 0 | 36 | 736 | 1,509 | 1,115 | 1,555 | 1,893 | 1,237 | 525 |
| Amount of Multi-Family Financing Provided (\$ 000s) | 34,510 | 651 | 1,997 | 53,160 | 70,870 | 45,647 | 98,534 | 101,205 | 76,358 | 36,051 |
| Total Number of Housing Units Financed | 976 | 386 | 365 | 1,050 | 1,995 | 1,642 | 2,058 | 2,054 | 1,242 | 525 |
| Total Amount of Housing Financing Provided (\$ 000s) | 65,615 | 39,251 | 301,997 | 84,377 | 127,070 | 113,569 | 159,834 | 120,805 | 76,970 | 36,051 |
| <u>PUBLIC SAFETY AND JUSTICE</u> | | | | | | | | | | |
| <u>Police</u> | | | | | | | | | | |
| Crime Index Offenses | 69,516 | 67,491 | 58,378 | 48,819 | 42,671 | 39,651 | 40,305 | 40,213 | 39,797 | 36,246 |
| Number of Police Officers | 3,892 | 3,561 | 3,657 | 3,537 | 3,484 | 3,599 | 3,601 | 3,666 | 3,711 | 3,800 |
| <u>Fire</u> | | | | | | | | | | |
| Number of Fire Fighters | 1,187 | 1,225 | 1,233 | 1,206 | 1,179 | 1,204 | 1,282 | 1,294 | 1,388 | 1,426 |
| Number of Fire Alarms | 189,574 | 175,300 | 148,774 | 146,457 | 155,497 | 115,601 | 125,371 | 118,416 | 119,582 | 119,846 |
| Inspections | 32,039 | 26,325 | 27,594 | 34,978 | 18,595 | 22,983 | 23,923 | 20,303 | 13,055 | 26,703 |
| <u>EMS</u> | | | | | | | | | | |
| Number Emergency Medical Personnel | 307 | 309 | 298 | 304 | 328 | 321 | 331 | 354 | 377 | 342 |
| Number of Emergency Responses | 102,494 | 91,044 | 71,475 | 70,196 | 72,337 | 71,998 | 75,008 | 86,175 | 89,817 | N/A |

**Operating Indicators by Function/Program
Last Ten Fiscal Years**

Exhibit S-5A

(Continued)

| Function/Program | Operating Indicators | | | | | | | | | |
|--|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| <u>PUBLIC EDUCATION SYSTEM</u> | | | | | | | | | | |
| <u>D.C. Public School System</u> | | | | | | | | | | |
| Number of School Teachers | 6,038 | 5,695 | 5,062 | 5,482 | 5,267 | 5,030 | 4,850 | 4,938 | 4,365 | 5,206 |
| Number of School Students | 80,450 | 79,802 | 78,648 | 77,111 | 71,899 | 70,762 | 68,925 | 67,522 | 65,093 | 62,306 |
| Number of High School Graduates | 2,794 | 2,696 | 2,853 | 2,777 | 2,675 | 2,695 | 2,808 | 2,894 | 2,723 | 2,740 |
| <u>University of the District of Columbia</u> | | | | | | | | | | |
| Number of Teachers | 387 | N/A | N/A | N/A | 233 | 223 | N/A | 260 | 260 | 208 |
| Number of Students | 9,660 | 7,464 | 4,754 | 5,284 | 5,181 | 5,358 | 5,456 | 5,468 | 5,241 | 5,424 |
| Number of Graduates | 927 | 1,041 | 961 | 692 | 576 | 581 | 511 | 466 | 483 | 508 |
| <u>PUBLIC LIBRARY</u> | | | | | | | | | | |
| Number of Volumes | 2,761,950 | 2,812,565 | 2,863,749 | 2,562,452 | 2,562,452 | 2,756,244 | 2,715,332 | 2,721,119 | 2,609,062 | 2,559,601 |
| <u>PUBLIC WORKS/PUBLIC TRANSPORTATION</u> | | | | | | | | | | |
| Street Resurfaced (includes reconstruction); regular cover; pavement restoration (miles) | 8.3 | 18.2 | 56.1 | 31.8 | 31.9 | 39.4 | 78.8 | 103.1 | 27.8 | 36.5 |
| Potholes Repaired | N/A | N/A | N/A | N/A | N/A | 5,354 | 5,802 | 7,005 | 7,679 | 9,177 |
| Refuse collected (tons per day) | 461 | 462 | 513 | 538 | 505 | 526 | 466 | 491 | 511 | 506 |
| Recyclables collected (tons per day) | 101 | 72 | 0* | 0* | 80 | 79 | 82 | 78 | 83 | 84 |
| Tons of Snow Removed | 2,014,021 | 9,172,768 | 1,336,034 | 1,994 | 2,313,133 | 3,070,883 | 1,475,619 | 638,106 | 8,056,083 | 2,472,659 |
| *Note: In FY's 1997 and 1998 recycling was suspended. | | | | | | | | | | |
| <u>Department of Motor Vehicles</u> | | | | | | | | | | |
| Number of motor vehicle registrations (1/1 - 12/31) | N/A | N/A | 130,203 | 270,242 | 237,832 | 288,866 | N/A | 231,848 | 235,907 | 243,874 |
| Number of operator licenses issued (1/1 - 12/31) | N/A | N/A | 86,983 | 102,095 | 120,755 | 148,216 | N/A | 70,491 | 78,022 | 96,760 |
| Number of operator licenses outstanding (1/1 - 12/31) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 241,304 | 237,526 |
| <u>D.C. WATER AND SEWER AUTHORITY</u> | | | | | | | | | | |
| Number of Customer locations | 130,270 | 130,420 | 130,645 | 130,920 | 130,000 | 127,882 | 124,749 | 130,000 | 122,502 | 122,802 |
| Average daily water consumption (MGD) | 142 | 143 | 137 | 133 | 139 | 134 | 132 | 135 | 86 | 87 |
| Daily maximum sewer capacity (MGD) | 585 | 585 | 740 | 740 | 740 | 740 | 740 | 1,076 | 370 | 370 |
| Peak 4 Hour Flow, through complete process (MGD) | 740 | 740 | 740 | 740 | 740 | 740 | 740 | 740 | 740 | 740 |
| Excess Storm Flow, primary treatment only (MGD) | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 336 |
| Peak Flow (MGD) | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 |
| <u>CONVENTION CENTER</u> | | | | | | | | | | |
| Conferences held | 99 | 91 | 98 | 115 | 139 | 116 | 165 | 169 | 163 | 201 |
| Attendees | 1,281,254 | 1,350,925 | 598,069 | 989,787 | 840,590 | 935,763 | 985,196 | 915,088 | 891,008 | 1,023,072 |
| N/A: Not Available | | | | | | | | | | |

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Exhibit S-5B

| Function/Program | Fiscal Years | | | | | | | | | |
|---|--------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| <u>Public safety and justice</u> | | | | | | | | | | |
| <u>Police</u> | | | | | | | | | | |
| Police Stations Including Satelites | 7 | 8 | 9 | 10 | 11 | 13 | 13 | 14 | 14 | 16 |
| Number of Patrol Cars | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 1,207 |
| <u>Fire</u> | | | | | | | | | | |
| Number of Fire stations | 33 | 33 | 33 | 33 | 33 | 34 | 34 | 34 | 34 | 34 |
| Number of Fire Fighting Equipment | 79 | 64 | 64 | 62 | 62 | 70 | 78 | 78 | 91 | 92 |
| <u>EMS</u> | | | | | | | | | | |
| Number of Ambulances | 53 | 42 | 42 | 57 | 57 | 53 | 53 | 53 | 65 | 62 |
| <u>D.C. Public School System</u> | | | | | | | | | | |
| Schools | 165 | 159 | 147 | 149 | 149 | 146 | 146 | 146 | 147 | 147 |
| Number of school buses | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 650 |
| <u>Public library</u> | | | | | | | | | | |
| Number of Main and Branch Buildings | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 |
| Number of Community and Kiosk Facilities | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| <u>Parks and recreation</u> | | | | | | | | | | |
| Acreage | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 |
| Number of Centers and Playgrounds | 85 | 81 | 71 | 77 | 77 | 77 | 77 | 78 | 75 | 75 |
| Number of Day Camps | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 78 | 57 | 70 |
| Number of Outdoor Swimming Pools | 35 | 35 | 34 | 34 | 35 | 35 | 35 | 22 | 32 | 27 |
| Number of Indoor Swimming Pools | 6 | 7 | 6 | 7 | 6 | 7 | 7 | 7 | 6 | 6 |
| <u>Public works/Public transportation</u> | | | | | | | | | | |
| Number of Refuse collection trucks | 74 | 74 | 74 | 52 | 52 | 52 | 52 | 52 | 52 | 52 |
| Primary Street Miles | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 |
| Secondary Street Miles | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 |
| Number of Street Lights | 63,732 | 63,823 | 66,364 | 66,429 | 66,507 | 76,565 | 64,349 | 66,089 | 66,570 | 66,562 |
| Number of Signalized Intersections | 1,355 | 1,340 | 1,502 | 1,504 | 1,510 | 1,519 | 1,519 | 1,529 | 1,533 | 1,534 |
| Number of Trees | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 106,000 | 110,000 | 114,000 |
| <u>D.C. Water & Sewer Authority</u> | | | | | | | | | | |
| Miles of water mains | 1,287 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1300 |
| Miles of sewer mains | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1800 |

Full-Time Equivalent District Government Employees by Function/Program
Last Ten Fiscal Years
(Year ended Sept 30)

Exhibit S-5C

| Function/Program | Full-time Equivalent District Government Employees | | | | | | | | | |
|-------------------------------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Governmental direction and support | 1,417 | 1,288 | 1,457 | 1,700 | 2,187 | 1,953 | 2,659 | 2,647 | 2,417 | 2,358 |
| Economic development and regulation | 768 | 717 | 626 | 584 | 1,014 | 1,205 | 597 | 556 | 538 | 1,000 |
| Public safety and justice | 11,446 | 11,122 | 10,611 | 8,738 | 8,548 | 8,244 | 7,328 | 7,169 | 7,379 | 7,547 |
| Public education system | 11,022 | 10,299 | 9,334 | 8,636 | 8,495 | 9,662 | 10,824 | 11,344 | 10,818 | 10,770 |
| Human support services | 3,912 | 3,538 | 3,112 | 3,224 | 3,086 | 4,666 | 1,957 | 4,095 | 4,280 | 4,211 |
| Public works | 1,995 | 2,073 | 2,111 | 2,225 | 1,235 | 1,718 | 2,071 | 1,585 | 1,454 | 1,624 |
| Total | 30,560 | 29,037 | 27,251 | 25,107 | 24,565 | 27,448 | 25,436 | 27,396 | 26,886 | 27,510 |

Exhibit S-5D

Fund Balance and Bond Rating History

